POWER CORPORATION
OF CANADA

Management's Discussion and Analysis

March 18, 2020

Consolidated Financial Statements and Notes

For the year ended
December 31, 2019

Power Corporation of Canada

TABLE OF CONTENTS

This document contains management's discussion and analysis of the financial condition, financial performance and cash flows of Power Corporation of Canada (the Corporation) for the twelve-month and three-month periods ended December 31, 2019 and the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2019. This document has been filed with the securities regulatory authorities in each of the provinces and territories of Canada and mailed to requesting shareholders of the Corporation in accordance with applicable securities laws.

Power Corporation of Canada

PART A

Power Financial Corporation

PART B

Great-West Lifeco Inc.

PART C

IGM Financial Inc.

PART D

Pargesa Holding SA

PART E

The trademarks contained in this report are owned by Power Corporation of Canada or by a Member of the Power Corporation Group of Companies®. Trademarks that are not owned by Power Corporation are used with permission.

Power Corporation of Canada

PART A

Management's Discussion and Analysis

PAGE A 2

Financial Statements and Notes

PAGE A 77

POWER CORPORATION OF CANADA

Management's Discussion and Analysis

MARCH 18, 2020

ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.

The following presents Management's Discussion and Analysis (MD&A) of the consolidated financial condition and financial performance of Power Corporation of Canada (Power Corporation or the Corporation) (TSX: POW), a public corporation, for the twelve-month and three-month periods ended December 31, 2019. This MD&A should be read in conjunction with the audited consolidated financial statements of Power Corporation and notes thereto for the twelve-month period ended December 31, 2019 (the 2019 Consolidated Financial Statements). Additional information relating to Power Corporation, including its Annual Information Form, may be found on the Corporation's website at www.powercorporation.com and on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS › Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries including the fintech strategy, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, the intended effects of the Reorganization (as defined herein), the NCIB (as defined herein) and the proposed redemption by the Corporation and Power Financial of certain classes of their First Preferred Shares. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, fluctuations in interest rates, inflation and foreign exchange rates, monetary policies, business investment and the health of local and global equity and capital markets, management of market liquidity and funding risks, risks related to investments in private companies and illiquid securities, risks associated with financial instruments, changes in accounting policies and methods used to report financial condition (including uncertainties associated with significant judgments, estimates and assumptions), the effect of applying future accounting changes, business competition, operational and reputational risks, technological changes, cybersecurity risks, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, manmade disasters, terrorist attacks, wars and other conflicts, or an outbreak of a public health pandemic or other public health crises, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the availability of cash to complete purchases under the NCIB and to redeem First Preferred Shares of the Corporation and Power Financial and that the list of factors in the previous paragraph, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

Other than as specifically required by applicable Canadian law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Corporation's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this MD&A and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available at www.sedar.com.

The following abbreviations are used throughout this report:

adidas	adidas AG
BME	Madrid Stock Exchange
Burberry	Burberry Group plc
Canada Life	The Canada Life Assurance Company
China AMC	China Asset Management Co., Ltd.
EBR	Euronext Brussels
EPA	Euronext Paris
GBL	Groupe Bruxelles Lambert
GEA	GEA Group
Great-West Life	The Great-West Life Assurance Company
Great-West Life & Annuity or Empower Retirement	Great-West Life & Annuity Insurance Company
IFRS	International Financial Reporting Standards
IGM or IGM Financial	IGM Financial Inc.
IG Wealth Management	Investors Group Inc.
IntegraMed	IntegraMed America, Inc.
Investment Planning Counsel	Investment Planning Counsel Inc.
Irish Life	Irish Life Group Limited
Koho	KOHO Financial Inc.
LafargeHolcim	LafargeHolcim Ltd
Lifeco	Great-West Lifeco Inc.
Lion or Lion Electric	The Lion Electric Co.
London Life	London Life Insurance Company
Lumenpulse	Lumenpulse Group Inc.
Mackenzie or Mackenzie Investments	Mackenzie Financial Corporation
Nautilus	Nautilus Solar Energy, LLC
Ontex	Ontex N.V.
PanAgora	PanAgora Asset Management, Inc.
Pargesa	Pargesa Holding SA
Parjointco	Parjointco N.V.
Parques	Parques Reunidos Servicios Centrales, S.A.
Peak	Peak Achievement Athletics Inc.
Personal Capital	Personal Capital Corporation
Portag3	Portag3 Ventures Limited Partnership
Portag3 II	Portag3 Ventures II Limited Partnership
Potentia or Potentia Renewables	Potentia Renewables Inc.
Power Energy	Power Energy Corporation
Power Financial	Power Financial Corporation
Power Pacific or Sagard China	Power Pacific Investment Management Inc.
Power Sustainable Capital	Power Sustainable Capital Investments Inc.
Putnam	Putnam Investments, LLC
Sagard Europe	Sagard SAS, Sagard 2 and Sagard 3
Sagard Healthcare Royalty	Sagard Healthcare Royalty Partners, LP
Sagard Holdings	Sagard Holdings ULC
SGS	SGS SA
SIX	Swiss Stock Exchange
Total	Total SA
Umicore	Umicore, NV/SA
Wealthsimple	Wealthsimple Financial Corp.
Webhelp	Webhelp Group
XETR	XETRA Stock Exchange

Organization of the Annual MD&A

	Page
Overview	
Power Corporation of Canada	3
2019 Highlights	4
Power Financial	7
Investment Platforms and other	10
China AMC	14
Basis of Presentation	15
IFRS Financial Measures and Presentation	15
Non-IFRS Financial Measures and Presentation	18
Reconciliation of IFRS and Non-IFRS Financial Measures	19
Results of Power Corporation	20
Consolidated Statements of Earnings	21
Non-Consolidated Statements of Earnings	23
Contribution to Net Earnings and Adjusted Net Earnings	25
Financial Position	44
Net Asset Value	48
Cash Flows	51
Capital Management	54
Risk Management	56
Financial Instruments and Other Instruments	62
Off-Balance Sheet Arrangements	64
Contingent Liabilities	65
Commitments and Contractual Obligations	65
Income Taxes	66
Transactions with Related Parties	66
Summary of Critical Accounting Estimates and Judgments	67
Changes in Accounting Policies	71
Future Accounting Changes	72
Disclosure Controls and Procedures	74
Internal Control over Financial Reporting	74
Selected Annual Information	75
Summary of Quarterly Results	76

Overview

POWER CORPORATION OF CANADA

Incorporated in 1925, Power Corporation (TSX: POW; POW.PR.E) is an international management and holding company that focuses on financial services in North America, Europe and Asia. Its core holdings are leading insurance, retirement, wealth management and investment businesses, including a portfolio of alternative asset investment platforms. Through its controlling interest in Power Financial, it controls Lifeco and IGM and in recent years has implemented an active fintech strategy. It also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa.

Power Corporation conducts investment activities, built upon a network of deep and long-standing relationships, to provide superior returns on a diversified basis. Investment activities include investments in alternative asset managers and investment funds including Sagard Europe, Sagard Holdings, Power Pacific, Power Energy and interests in China resulting from more than 40 years of engagement.

Power Corporation adheres to four overriding investing principles to pursue its objectives of achieving sustainable long-term value creation in the best interests of the Corporation:

- Long-term perspective
- Leading franchises with attractive growth profiles
- Strong governance oversight
- Prudent approach to risk management

Power Corporation is anchored through its core investment in Power Financial, which historically has provided stable cash flows through its regular dividends. Power Corporation's value creation strategy is designed to achieve superior investment returns and stable cash flows. Significant investments have also been made in non-financial sector investment platforms. Historically many of these investments were held in funds managed by third parties. Since the early 2000s, Power Corporation has been investing and developing its own investment platforms:

- Sagard Europe funds invest with significant influence or controlling positions in mid-size European private companies that have high growth potential and superior management talent. Pargesa, GBL and third parties also invest in the Sagard Europe funds.
- Sagard Holdings, since its inception in 2005, has evolved into a multi-strategy alternative asset manager. Sagard Holdings invests across four asset classes: equity, private credit, royalties and venture capital. Sagard Holdings looks to generate attractive returns by matching investment opportunities with flexible capital solutions and pairing entrepreneurs with teams that have deep industry knowledge.
- Power Sustainable Capital manages investments in sustainable strategies with a focus on long-term profitability. Power Sustainable Capital oversees the following platforms:
  - Power Pacific, formerly Sagard China, is a long-term, fundamentals-based investor in publicly listed Chinese companies. Its philosophy emphasizes rigorous research in building a portfolio of selected stocks.
  - Power Energy actively manages investments in the sustainable and renewable energy sector. Power Energy applies the Corporation's principles of collaboration and building trusted relationships in industries that benefit from the global energy transformation. It is rapidly expanding its footprint in businesses with stable long-term cash flows.

The Corporation's multi-generational relationships have been foundational in creating investment opportunities in China, such as through its investment in China AMC. China AMC, one of the largest asset managers in China, diversifies the Corporation's interests creating strategic opportunities with other asset managers within the Power group of companies.

2019 HIGHLIGHTS

Substantial Issuer Bids

On April 17, 2019, Lifeco completed a substantial issuer bid (Lifeco SIB), and purchased for cancellation 59,700,974 of its common shares, representing approximately 6.0% of the issued and outstanding common shares prior to the repurchase, at a purchase price of $33.50 per common share, for an aggregate amount of $2.0 billion. Power Financial supported Lifeco through its participation in the Lifeco SIB. As a result of the Lifeco SIB, Power Financial's equity interest in Lifeco decreased from 67.8% to 66.8% (excluding IGM's 4.0% interest) after giving effect to the cancellation of Lifeco common shares. IGM also participated in the Lifeco SIB, tendering on a proportionate basis.

Power Financial used the proceeds from its participation in the Lifeco SIB to fund its own substantial issuer bid (PFC SIB). On April 17, 2019, Power Financial completed the PFC SIB, and purchased for cancellation 49,999,973 of its common shares, representing approximately 7.0% of the issued and outstanding common shares prior to the repurchase, at a purchase price of $33.00 per common share, for an aggregate amount of $1.65 billion. Power Corporation supported Power Financial through its participation in the PFC SIB. As a result of the PFC SIB, the Corporation's equity interest in Power Financial decreased from 65.5% to 64.1% after giving effect to the cancellation of Power Financial common shares.

On April 17, 2019, the Corporation completed its substantial issuer bid (PCC SIB), and purchased for cancellation 40,909,041 of its subordinate voting shares, representing approximately 9.8% of the issued and outstanding subordinate voting shares prior to the repurchase, at a purchase price of $33.00 per subordinate voting share, for an aggregate amount of $1.35 billion. Power Corporation used the proceeds from its participation in the PFC SIB to fund its own substantial issuer bid. The PCC SIB allowed the Corporation to return capital to shareholders, while maintaining a strong capital position to fund future growth opportunities.

Reorganization

On December 13, 2019, the Corporation and Power Financial announced the execution of a definitive agreement to effect a reorganization transaction (Reorganization) pursuant to which each common share of Power Financial held by holders of common shares of Power Financial other than the Corporation and certain of its affiliates (PFC Minority Shareholders), would be exchanged for 1.05 subordinate voting shares of the Corporation and $0.01 in cash. At December 31, 2019, Power Financial incurred $9 million of costs related to this transaction, primarily related to legal and financial advisor fees, which have been included in Other items.

On February 13, 2020, subsequent to year-end, the Corporation successfully completed the Reorganization. The Corporation acquired 238,693,580 common shares of Power Financial and issued 250,628,173 of its subordinate voting shares to PFC Minority Shareholders. The Corporation now holds 100% of the issued and outstanding common shares of Power Financial, which were delisted from the TSX. Power Financial remains a reporting issuer in all of the provinces and territories of Canada, as Power Financial's First Preferred Shares and its 6.9% debentures due March 11, 2033 remain outstanding.

The Reorganization is expected to benefit shareholders of the Corporation by serving as the foundation and catalyst for a broader set of strategic initiatives expected to create long-term value:

- Simplified Corporate Structure – The Reorganization has effectively eliminated the current dual-holding company structure and consolidated ownership of the group's industry-leading financial services operating companies, while concurrently reducing organizational complexity.
- Focus on Financial Services – the Corporation's strategy now emphasizes financial services, including the businesses of Power Financial and the investment platform businesses of the Corporation.
  - Power Financial's Operating Companies – Commitment to value creation at each of Lifeco, IGM Financial and Pargesa, Power Financial's leading insurance, retirement, wealth management and investment franchises.
  - The Corporation's Investment Platforms – The Corporation has built investment platforms that manage portfolios on behalf of the Corporation and third-party investors in several alternative asset classes where the Corporation has a competitive advantage. The Corporation will continue to prioritize the development of these investment platforms. The Corporation also owns majority control of several standalone businesses, which will be managed to realize value over time.
- Operating Expense Reduction – The Corporation anticipates significant near-term cost reductions of approximately $50 million per year within two years by eliminating duplicative public company related expenses and rationalizing other general and administrative expenses.
- Financing Expense Reduction – The Corporation and Power Financial intend to redeem an aggregate of $350 million of their First Preferred Shares with available cash, resulting in reduced annual financing costs of approximately $15 million per year.
- Increase in the Corporation's Quarterly Dividend – The Corporation intends to increase its quarterly dividend by 10% to 44.75 cents per share, commencing in the second quarter of 2020.

As part of the reorganisation, Paul Desmarais, Jr. and André Desmarais retired as Co-Chief Executive Officers of Power Corporation after 24 years in their roles; they continue to serve as Chairman and Deputy Chairman, respectively, of Power Corporation's Board of Directors. R. Jeffrey Orr, President and Chief Executive Officer of Power Financial, became President and Chief Executive Officer of Power Corporation.

On February 12, 2020, in connection with the Reorganization, and in accordance with the pre-emptive right (Pre-Emptive Right) in favour of holders of participating preferred shares included in the Corporation's Articles, the Corporation issued 6,006,094 participating preferred shares to holders who duly exercised the Pre-Emptive Right. There were no further exercises of the Pre-Emptive Right on or prior to the subsequent deadline of March 12, 2020. The Pre-Emptive Right entitled holders of participating preferred shares to acquire from the Corporation, pro rata to their respective holdings in participating preferred shares, an aggregate number of participating preferred shares that is equal to 12.0% of the number of subordinate voting shares issued pursuant to the Reorganization. Pansolo Holding Inc. (Pansolo), a corporation controlled by the Desmarais Family Residuary Trust, purchased 6 million participating preferred shares under the Pre-Emptive Right on February 12, 2020, resulting in a direct and indirect ownership by Pansolo of voting shares of the Corporation to which are attached an aggregate 50.6% of the total votes of all the Corporation's shares outstanding.

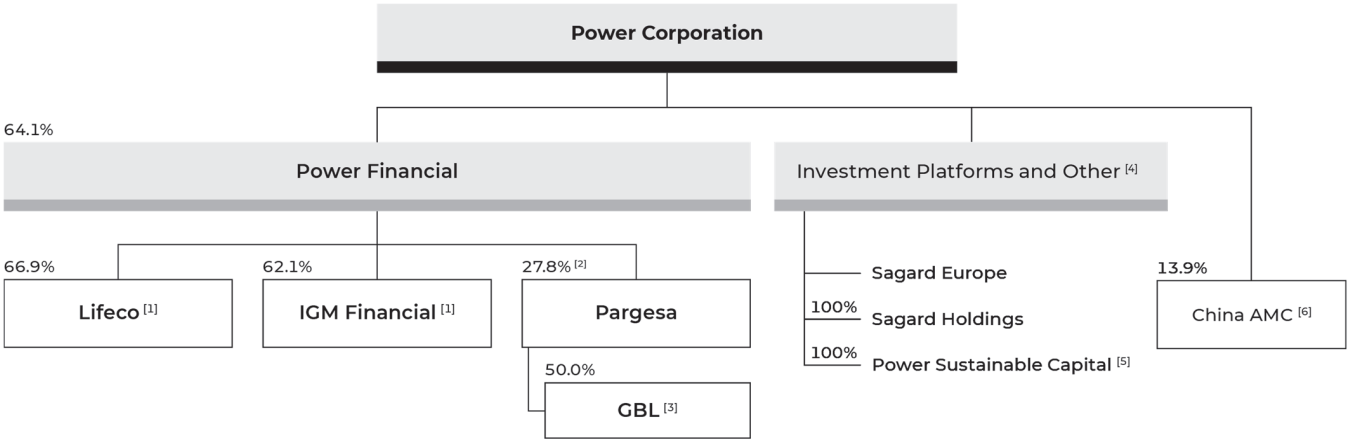
ORGANIZATION OF THE MD&A

The Corporation's MD&A consists of five parts:

- Part A – Power Corporation, presented on a consolidated and non-consolidated basis;
- Part B – Power Financial's annual MD&A, as prepared and disclosed by Power Financial in accordance with applicable securities legislation, presented on a consolidated and non-consolidated basis, and which is also available either directly from SEDAR (www.sedar.com) or from Power Financial's website (www.powerfinancial.com);
- Part C – Lifeco's annual MD&A, as prepared and disclosed by Lifeco in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from Lifeco's website (www.greatwestlifeco.com);
- Part D – IGM's annual MD&A, as prepared and disclosed by IGM in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from IGM's website (www.igmfinancial.com);
- Part E – Pargesa's financial results, derived from publicly disclosed information, as issued by Pargesa in its end-of-year press release. Further information on Pargesa's results is available on its website (www.pargesa.ch).

Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. Pargesa is a public company listed on the Swiss Stock Exchange (SIX: PARG). Market capitalizations reported in the following sections are at December 31, 2019.

The following chart reflects the economic interests held by the Corporation at December 31, 2019, which include Power Financial's operating subsidiaries (Lifeco, IGM, Wealthsimple, Koho and an investment in the Portag3 funds and Pargesa), and interests held through the Corporation's investment platforms and other, including investment funds and Power Energy, and an interest in China AMC.



In bold: Publicly listed holdings

[1] Lifeco, through Great-West Life, holds a 3.9% interest in IGM, and IGM holds a 4.0% interest in Lifeco.

[2] Held through Parjointco, a jointly controlled corporation (50%).

[3] Refer to the "Pargesa and GBL" section for a list of investments.

[4] Refer to the "Investment Platforms and Other" section for a list of investments held by each investment platform.

[5] Power Sustainable Capital oversees the Power Pacific and Power Energy investment platforms.

[6] IGM also holds a 13.9% interest in China AMC.

POWER FINANCIAL

Power Financial is an international management and holding company with interests in financial services and asset management businesses in Canada, the United States and Europe, through its controlling interests in Lifeco, IGM, Wealthsimple and Koho. It also has significant holdings in a portfolio of global companies based in Europe through its investment in Pargesa. At March 18, 2020, subsequent to the Reorganization, Power Corporation held 100% of the equity and voting interests in Power Financial.

See Part B of this MD&A for additional information on Power Financial.

Lifeco

Great-West Lifeco Inc., TSX: GWO; market capitalization of $30.8 billion at December 31, 2019, is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Lifeco operates in Canada, the United States and Europe under the brands Canada Life, Empower Retirement, Putnam Investments and Irish Life. For reporting purposes, Lifeco has four reportable segments: Canada, the United States, Europe and Corporate, which reflect geographic lines as well as the management and corporate structure of the companies.

In Canada, through the Individual Customer and Group Customer business units, Lifeco offers a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, including life, disability and critical illness insurance products as well as wealth savings and income and other speciality products. On April 3, 2019, Lifeco announced that its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, would be moving to one brand in Canada: Canada Life. Canada Life has become the brand under which the organization creates, delivers and communicates products and services in Canada across all of its lines of business. On January 1, 2020, Great-West Life, London Life and Canada Life amalgamated into a single life insurance company: The Canada Life Assurance Company.

The United States segment operates two primary business units, Financial Services and Asset Management. Empower Retirement, the Financial Services unit, is a leading provider of employer-sponsored defined contribution plans, administrative and record-keeping services, individual retirement accounts, fund management as well as investment and advisory services. The Asset Management unit, Putnam, provides investment management, certain administrative functions, and distribution services as well as offers a broad range of investment products, including equity, fixed income, absolute return and alternative strategies. PanAgora, a Putnam affiliate, offers a broad range of investment solutions using sophisticated quantitative techniques.

On June 1, 2019, Great-West Life & Annuity, a U.S. subsidiary of Lifeco, completed the sale, via indemnity reinsurance, of substantially all of its individual life insurance and annuity business to Protective Life Insurance Company (Protective Life) which now assumes the economics and risks associated with the reinsured business. The transaction resulted in an after-tax transaction value to Lifeco of approximately $1.6 billion (US$1.2 billion), excluding one-time expenses. The transaction value included a ceding commission of $1,080 million (US$806 million) and a capital release of approximately $530 million (US$400 million). The business transferred included bank-owned and corporate-owned life insurance, single-premium life insurance, individual annuities as well as closed-block life insurance and annuities. The transaction was structured as a reinsurance agreement, consequently, Lifeco will hold both the liability and offsetting reinsurance asset on its balance sheet.

In the second quarter of 2019, Lifeco recognized a loss related to this transaction of $199 million (US$148 million), which included transaction costs of $63 million (US$47 million) and $36 million (US$27 million) due to updated expense assumptions primarily related to stranded overhead. The liabilities transferred and ceding commission received at the closing of this transaction are subject to future adjustments. In October 2019, Protective Life provided Lifeco with its listing of proposed adjustments with respect to the liabilities transferred. In December 2019, Lifeco formally objected to these proposed adjustments. Lifeco continues to resolve these differences according to the Master Transaction Agreement. Based on the information presently known by Lifeco, it is difficult to predict the outcome of this matter with certainty, but this matter is not expected to materially impact the consolidated financial position of Lifeco. Great-West Life & Annuity has retained a block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.

The Reinsured Insurance & Annuity Business unit reflects substantially all of the individual life insurance and annuity business sold, through indemnity reinsurance, to Protective Life effective June 1, 2019. These products include life insurance, annuity and executive benefits, which are no longer offered by the U.S. segment.

The European segment is comprised of two distinct business units, Insurance & Annuities and Reinsurance, which offer protection and wealth management products, including payout annuity products and reinsurance products.

At December 31, 2019, Power Financial and IGM held interests of 66.9% and 4.0%, respectively, in Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits voting rights in life insurance companies to 65%.

See Part C of this MD&A for additional information on Lifeco.

IGM Financial

IGM Financial Inc., TSX: IGM; market capitalization of $8.9 billion at December 31, 2019, is a leading wealth and asset management company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly, primarily within the advice segment of the financial services market. Its activities are carried out through its subsidiaries IG Wealth Management, Mackenzie Investments and Investment Planning Counsel.

IG Wealth Management offers an exclusive family of mutual funds and other investment vehicles, and a wide range of insurance, securities, mortgage products and other financial services. IG Wealth Management offers IG Living Plan™, a holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan™ provides a single, integrated view of all aspects of a client's finances, including retirement and estate planning, investments, and tax strategies, creating a truly synchronized and comprehensive plan. IG Wealth Management provides its services through its exclusive network of consultants across Canada. It strives to distinguish itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships.

Mackenzie Investments is an investment management firm providing investment advisory and related services through multiple distribution channels: Retail, Strategic Alliances and Institutional. Mackenzie distributes its products and services primarily through a diversified distribution network of third-party financial advisors. Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

Investment Planning Counsel is an independent distributor of financial products, services and advice in Canada.

IGM previously announced a five-year transformation to modernize its digital platforms and technology infrastructure to enable it to enhance operations, achieve efficiencies and further improve the service experience for its clients. As part of this transformation effort, IGM announced two initiatives during 2019:

- IGM has selected CIBC Mellon to assume most of its fund services functions. This will add fund administration servicing solutions to the custody and related services that CIBC Mellon already performs for IGM.
- IGM has chosen Google Cloud to manage its data platform. IGM is among the first major Canadian financial services companies to move SAP applications and data to the Google Cloud Platform. The migration of the firm's data to a cloud-based environment is expected to enhance operational efficiencies through greater productivity and business agility, and enhanced service levels.

At December 31, 2019, Power Financial and Great-West Life, a subsidiary of Lifeco, held interests of 62.1% and 3.9%, respectively, in IGM's common shares.

See Part D of this MD&A for additional information on IGM.

Pargesa and GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group each hold a 50% interest in Parjointco. At December 31, 2019, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa, SIX: PARG; market capitalization of SF6.8 billion, is a holding company, which, at December 31, 2019, held a 50% interest in GBL, representing 51.7% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange.

GBL, EBR: GBLB; market capitalization of €15.2 billion, is one of the largest listed holding companies in Europe. As a holding company focused on long-term value creation, GBL relies on a stable and supportive family shareholder base. Its portfolio is comprised of global industrial and services companies, leaders in their markets, in which GBL plays its role of professional shareholder.

At December 31, 2019, GBL's portfolio was mainly comprised of investments in the following:

PUBLICLY LISTED

- Imerys (EPA: NK) – mineral-based specialty solutions for industry
- adidas (XETR: ADS) – design and distribution of sportswear
- Pernod Ricard (EPA: RI) – wines and spirits
- SGS (SIX: SGSN) – testing, inspection and certification
- LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete
- Umicore (EBR: UMI) – materials technology and recycling of precious metals
- Total (EPA: FP) – oil, gas and chemical industries
- GEA (XETR: G1A) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors
- Ontex (EBR: ONTEX) – disposable hygiene products

PRIVATELY HELD

- Webhelp – provider of customer experience and business process outsourcing
- Parques – operation of regional leisure parks

In addition, through its subsidiary Sienna Capital, GBL is developing a portfolio of private equity, debt and thematic funds.

During the second quarter of 2019, GBL sold its 0.6% interest in Total through forward sales contracts maturing in January 2020. GBL expects to realize a gain of €411 million in the first quarter of 2020.

On August 2, 2019, GBL announced the signing of an agreement to acquire Webhelp, through an investment vehicle controlled by GBL. Webhelp is one of the world's leading providers of customer experience and business process outsourcing. On November 19, 2019, GBL completed the acquisition of Webhelp. GBL invested €0.9 billion for an ownership of 64.7% of the capital of the investment vehicle, on the basis of a total enterprise value of €2.4 billion for Webhelp.

On March 11, 2020 Parjointco and Pargesa announced an agreement for a proposed transaction that would simplify the group structure. As per the agreement, a public exchange offer will be initiated by Parjointco for all Pargesa shares not already owned by Parjointco under which Pargesa shareholders will be entitled to receive 0.93 shares of GBL for each Pargesa bearer share they hold. Following the proposed transaction, it is anticipated that Pargesa will be delisted from the SIX and Parjointco is expected to retain de facto control and maintain approximately the same economic equity interest in GBL of 28%. The proposed transaction will be subject to Parjointco holding or having received shareholder acceptances with respect to at least 90% of Pargesa's total voting rights and is conditional upon GBL shareholders approving the implementation of double-voting rights at GBL's Extraordinary Shareholders Meeting to be held on April 28, 2020. The proposed reorganization of Pargesa will further simplify Power Corporation's corporate structure as part of its ongoing strategy of value creation.

At December 31, 2019, Pargesa's net asset value was SF10,946 million, compared with SF8,973 million at December 31, 2018. GBL's net asset value at December 31, 2019 was €20,349 million, compared with €16,193 million at December 31, 2018.

See Part E of this MD&A for additional information on Pargesa.

Fintech Investments

PORTAG3

Power Financial, together with IGM and Lifeco (the group), are anchor investors in funds managed by an affiliate, Portag3 Ventures, which operates investment funds dedicated to backing innovative financial services companies that have the potential for change and global impact. To date, Portag3 Ventures has invested in more than 45 fintech companies and investment funds. Portag3 Ventures is managed by Sagard Holdings, a subsidiary of Power Corporation.

Portag3 Ventures' first fintech fund (Portag3) held investments of $64 million at December 31, 2019 ($56 million at December 31, 2018), excluding the investments in consolidated subsidiaries Wealthsimple and Koho discussed below.

Portag3 II, Portag3 Ventures' second fintech fund, is focused on early stage investments in specific verticals within the global financial technology sector. During the fourth quarter of 2019, additional closings increased the total capital commitments by $74 million to $427 million ($211 million at December 31, 2018). Power Financial, Lifeco and IGM have each committed $33 million for a total of $99 million. At December 31, 2019, the fair value and cost of Portag3 II's investment portfolio, excluding the investment in the consolidated subsidiary Koho, was $143 million ($62 million at December 31, 2018) and $110 million ($55 million at December 31, 2018), respectively.

WEALTHSIMPLE

At December 31, 2019, Portag3, Power Financial and IGM held, through a limited partnership controlled by Power Financial, an undiluted equity interest in Wealthsimple of 84.9%, representing a voting interest of 85.3% and a fully diluted equity interest of 71.3%. Wealthsimple is one of Canada's leading financial technology companies, and operates one of the country's largest and fastest-growing digital investing service. In May 2019, Wealthsimple announced the closing of a $100 million Series B investment round, led by a third party, Allianz X, the digital investment unit of Germany-based insurer and asset manager Allianz Group.

Wealthsimple continues to expand its presence in the marketplace and diversify its offering to a suite of investment and save products, which include Wealthsimple Invest, Wealthsimple Save, Wealthsimple Trade, Wealthsimple for Advisors (W4A) and Wealthsimple for Work (W4W). At December 31, 2019, Wealthsimple has over 250,000 clients across the Canadian, United States and United Kingdom markets with assets under administration of over $6.3 billion. On September 24, 2019, Wealthsimple announced that it had acquired SimpleTax, a Canadian web-based tax preparation service. On January 23, 2020, Wealthsimple announced that Purpose Advisor Solutions acquired Wealthsimple for Advisors.

During the fourth quarter of 2019, Power Financial and IGM invested $4 million and $5 million, respectively, in Wealthsimple. In 2019, Power Financial and IGM invested a total of $107 million in Wealthsimple, which includes the conversion of $20 million of previously issued promissory notes. At December 31, 2019, the cost of the group's investment was $315 million.

KOHO

At December 31, 2019, Portag3 II and Portag3, Power Financial, Lifeco and IGM, through a limited partnership controlled by Power Financial, held a 54.4% equity interest in Koho. Koho is a Canada-based digital platform offering a suite of financial services to provide consumers an experience that is an alternative to a traditional bank. During the fourth quarter of 2019, Koho announced that it closed an extension of its latest Series B round for $25 million of new capital led by Drive Capital. At December 31, 2019, the cost of the group's investment in Koho was $32 million.

INVESTMENT PLATFORMS AND OTHER

Since the launch of the first Sagard fund in 2002, Power Corporation has continued to build investment platforms that manage portfolios on behalf of the Corporation and third-party investors in several alternative asset classes in three principal geographies: Europe, North America, and China. The investment platforms, Sagard Europe, Sagard Holdings, Power Pacific and Power Energy, are managed locally by experienced investment professionals who have an in-depth knowledge of the local public and/or private markets and benefit from collaboration within the Power group of companies. Power Corporation's investment platforms: (i) leverage its extensive global network and business relationships; (ii) seek to achieve long-term capital appreciation through fundamental investment analysis; and (iii) seek opportunities to acquire controlling interests in its most promising investments, where appropriate. Each of the investment platforms adheres to Power Corporation's investment philosophy and governance model.

The investment platforms manage and operate investment funds in which third-party investors, the Corporation and associated companies can participate. The Corporation controls a fund when it is exposed, or has rights, to variable returns from its involvement with the fund and has the ability to affect those returns through its power to direct the relevant activities of the fund.

The following table summarizes Power Corporation's interests in each of the funds managed by its investment platforms:

December 31, 2019	Sagard Europe [1]		Sagard Holdings [2]				Power Pacific	Power Energy
(in millions; except as otherwise noted)	Sagard II	Sagard 3	Sagard Capital Partners LP	Sagard Credit Partners LP	Sagard Healthcare Royalty Partners [3]	Portag3 Ventures II LP	A, H and ADR equities	Investments in sustainable and renewable energy entities
	€	€	US$	US$	US$	C$	C$	C$
Original commitment								
Power Corporation	154	302	485	100	75	20	238	814
Power Financial	–	–	–	–	–	33	–	–
Third parties and associated companies [4]	594	506	–	457	400	374	–	–
Fund size	748	808	485	557	475	427	238	814
Unfunded commitment								
Power Corporation	4	88	–	64	44	14	–	–
Power Financial	–	–	–	–	–	22	–	–
Third parties and associated companies	26	159	–	292	400	251	–	–
Total unfunded commitment	30	247	–	356	444	287	–	–
Interest (%)								
Power Corporation	22.0	37.3	100.0	18.0	15.8	4.7	100.0	100.0
Power Financial	–	–	–	–	–	7.7	–	–
Third parties and associated companies	78.0	62.7	–	82.0	84.2	87.6	–	–
Base management fees [5]	1.75	2.00	–	1.50	1.75	2.00	n.a.	n.a.
Assets under management of fund [6]	410	736	152	230	33	174	739	1,075
Nature of the fund	Portfolio investment	Portfolio investment	Controlling interest	Controlling interest	Controlling interest	Controlling interest	Controlling interest	Controlling interest
Accounting method	Available for sale	Available for sale	Consolidation	Consolidation	Consolidation	Consolidation	Consolidation	Consolidation

[1] Subsequent to December 31, 2019, the management and operations of the Sagard Europe funds, Sagard SAS, was transferred under Sagard Holdings.

[2] Sagard Holdings also manages Portag3, a fund held by Power Financial, Lifeco and IGM.

[3] On January 9, 2020, Sagard Holdings announced the first closing of Sagard Healthcare Royalty Partners.

[4] Included in third parties and associated companies are commitments of Pargesa (€37 million in Sagard II), and GBL (€113 million in Sagard II and €218 million in Sagard 3). Lifeco and IGM have each committed $33 million to Portag3 Ventures II LP. Also includes commitments from management.

[5] Management fees are based on committed or invested capital.

[6] Includes fair value of controlled and consolidated investments held through investment funds.

Sagard Europe

Sagard Europe comprises (i) Sagard SAS, a French management company headquartered in Paris, a wholly owned subsidiary of the Corporation and (ii) Sagard II and Sagard 3 funds that are managed by Sagard SAS. These funds invest in mid-sized private companies based in France, Belgium, Luxembourg and Switzerland.

The Corporation's interests in these two active funds are classified as available-for-sale investments.

Sagard Europe funds:

December 31, 2019 (in millions; in Canadian dollars)	Sagard II	Sagard 3
Corporation's investment to date	220	470
Corporation's share of distributions to date	215	301
Fair value of the Corporation's investment at December 31, 2019	105	373

The Corporation has invested $864 million to date in the Sagard Europe funds (including Sagard I) and has received distributions of $936 million. At December 31, 2019, the fair value of the Corporation's investments in the Sagard Europe funds, excluding the Corporation's share of investments held indirectly through Pargesa and GBL, was $478 million (includes unrealized gains of $125 million), compared with $391 million at December 31, 2018.

Subsequent to December 31, 2019 the Corporation committed an amount of €150 million, which may be increased to €200 million under certain circumstances, to Sagard 4, a new fund launched by Sagard SAS.

Sagard Holdings

Sagard Holdings, a wholly owned subsidiary of the Corporation, was founded in 2005 as a complement to the Corporation's global investment holdings. Today, Sagard Holdings is a multi-strategy alternative asset manager with professionals located in Montréal, Toronto, New York, Paris and Singapore. Sagard Holdings looks to generate attractive returns by matching investment opportunities with flexible capital solutions and pairing entrepreneurs with teams that have deep industry knowledge. Sagard Holdings develops long-term partnerships and empowers the growth of its investments through a unique global network of portfolio companies, limited partners, advisors and other valued relationships.

Sagard Holdings manages US$2.0 billion of assets including unfunded commitments across four asset classes: equity, private credit, royalties and venture capital.

EQUITY

- Sagard Holdings holds a 91.6% interest in IntegraMed, a private healthcare services company operating a network of fertility clinics in North America. The Corporation controls IntegraMed and consolidates its interest.
- Sagard Holdings holds a 42.6% equity interest and 50% of the voting rights in Peak. Peak designs and markets sports equipment and apparel for ice hockey, baseball, softball and lacrosse under iconic brands including Bauer and Easton. The Corporation's investment is accounted for using the equity method.
- Sagard Holdings holds a 21.4% equity interest in GP Strategies Corporation, a global performance improvement company offering sales and technical training, eLearning solutions, management consulting and engineering services. The Corporation accounts for its investment using the equity method.

PRIVATE CREDIT

- Sagard Credit Partners LP, a fund launched and managed by Sagard Holdings, provides credit capital directly to public and private middle-market companies across the U.S. and Canada. Sagard Credit Partners LP has total commitments of US$557 million, of which Sagard Holdings has committed US$100 million, and has funded US$36 million at December 31, 2019. Sagard Credit Partners LP held investments of $288 million (US$222 million) at December 31, 2019.

ROYALTIES

- In January 2019, Sagard Holdings announced the launch of Sagard Healthcare Royalty Partners (SHRP), which will invest in the life sciences sector with a focus on investments protected by strong intellectual property. SHRP will invest in various structures including traditional healthcare royalties, royalty securitizations and credit. At December 31, 2019, SHRP held one investment of US$32 million, in a cancer drug marketed as Rubraca.

  During the fourth quarter of 2019, Sagard Holdings completed the first closing of SHRP, with commitments totalling US$475 million at December 31, 2019, of which Sagard Holdings has committed US$75 million.

VENTURE CAPITAL

- Portag3 Ventures, an investment manager within Sagard Holdings, manages investment funds dedicated to backing innovative financial services companies that have the potential for change and global impact. Through its funds, Portag3 and Portag3 II, Portag3 Ventures has invested in more than 45 fintech companies and investment funds. Portag3 II has total commitments of $427 million, of which Sagard Holdings has committed $20 million and has funded $6 million at December 31, 2019. The combined fair value of the investment portfolios managed by Portag3 Ventures, excluding investments in consolidated subsidiaries Wealthsimple and Koho, was $207 million at December 31, 2019.

At December 31, 2019, the Corporation had invested $616 million in Sagard Holdings and has received distributions of $64 million. At December 31, 2019, the fair value of Sagard Holdings' investments, including cash, was $536 million (includes unrealized gains of $70 million), compared with $579 million at December 31, 2018.

Power Pacific

Power Pacific (formerly Sagard China) invests in the mainland China A-shares ("A" shares) market through a Qualified Foreign Institutional Investor (QFII) licence as well as through Hong Kong Stock Connect. Power Pacific has a long-term, fundamentals-based investment philosophy, and benefits from ongoing growth across multiple attractive sectors in China.

Since its inception in 2005, the Corporation has invested $316 million in Power Pacific and has received distributions of $120 million, including a distribution of US$75 million (C$101 million) in the second quarter of 2019. At December 31, 2019, the fair value of the Corporation's investment in Power Pacific, including cash, was $739 million (includes unrealized gains of $84 million), compared with $669 million at December 31, 2018.

	December 31, 2019	December 31, 2018
Investments		
Money market funds	–	167
A, H, and ADR equities [1]	717	340
Cash	22	162
Total portfolio, at fair value	739	669

[1] In 2018, the portfolio included shares held on the Hong Kong stock exchange ("H" shares) and American Depository Receipts ("ADR").

Subsequent to December 31, 2019 Power Pacific distributed a further amount of $50 million.

Power Energy

Power Energy actively manages investments in the sustainable and renewable energy sector with the goal of building and owning, over the long term, companies that can generate growing and stable cash flows. Power Energy invests in companies that benefit from the global energy transformation and currently has invested in companies that develop, own and operate solar and wind generating assets in North America as well as companies in the sustainable sector:

RENEWABLE ENERGY INFRASTRUCTURE

- Potentia Renewables: Potentia, a renewable energy generation company, is a fully integrated developer, owner and operator of solar and wind energy assets, active in North America and the Caribbean.
- Nautilus: On July 30, 2019, Power Energy acquired a 100% equity interest in Nautilus Solar Energy, LLC, a company headquartered in New Jersey, U.S. that acquires, develops, finances and manages distributed solar projects across community, municipal/utility-scale, commercial and industrial markets.

Total assets of the renewable energy infrastructure portfolio were $1,294 million at December 31, 2019. The portfolio has a combined 910 megawatts (MW) of solar and wind operating assets, which includes 260 MW of assets under construction, and 371 MW of assets in advanced development projects.

During 2019, Power Energy invested $231 million in the renewable energy infrastructure portfolio. A further $37 million was invested in the portfolio subsequent to December 31, 2019.

SUSTAINABLE SECTOR

- Lumenpulse: Power Energy holds a controlling interest of 60.5% in Lumenpulse, a leading manufacturer of high-performance, specification-grade LED lighting solutions.
- Lion Electric: Power Energy holds a 44.2% interest in Lion Electric, an innovative company manufacturing zero-emission vehicles sold throughout North America. During 2019, Power Energy invested a further $5 million in Lion Electric.

At December 31, 2019, Power Energy had invested a total of $843 million in these four companies.

CHINA AMC

Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained its position among the market leaders in China's asset management industry. China AMC's assets under management, excluding subsidiary assets under management, were RMB¥1,032 billion (C$192 billion) at December 31, 2019.

The Corporation and IGM each hold interests of 13.9% in China AMC, representing a combined 27.8% interest. Together they have significant influence and account for their respective interests as an associate using the equity method.

The investment in China AMC provides the potential to leverage the group's global experience in wealth management and distribution. The Power group of companies benefit from the strategic relationship with China AMC which provides opportunities to work together on developing products and subadvisory relationships.

Basis of Presentation

IFRS FINANCIAL MEASURES AND PRESENTATION

The 2019 Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS and are presented in Canadian dollars.

Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its subsidiaries. The consolidated financial statements present the financial results of Power Corporation (parent) and its subsidiaries after the elimination of intercompany balances and transactions.

The financial statements of the Corporation are consolidated with those of Power Financial which include the results of Lifeco, IGM, Wealthsimple, Koho and the Portag3 funds, which are controlled and consolidated by Power Financial.

Power Financial's investment in Pargesa is held through Parjointco. Parjointco is a holding company jointly controlled by Power Financial and the Frère Group, and is accounted for using the equity method.

Under the equity method, the investment is initially recognized at cost and adjusted thereafter for changes in the share of net earnings (loss), other comprehensive income (loss) and changes in equity. The investment is reduced by the amount of dividends received.

The following table summarizes the accounting presentation for the Corporation's holdings:

Control	Accounting Method	Earnings and Other Comprehensive Income	Impairment Testing	Impairment Reversal
Controlling interest in the entity	Consolidation	Consolidated with non-controlling interests	Goodwill and indefinite life intangible assets are tested at least annually for impairment	Impairment of goodwill cannot be reversed Impairment of intangible assets is reversed if there is evidence of recovery of value
Significant influence or joint control	Equity method	Corporation's share of earnings and other comprehensive income	Entire investment is tested for impairment	Reversed if there is evidence the investment has recovered its value
Investment	Available for sale (AFS)	Earnings consist of dividends received and gains or losses on disposals The investments are marked to market through other comprehensive income Earnings are reduced by impairment charges, if any	Impairment testing is done at the individual investment level A significant or prolonged decline in the value of the investment results in an impairment charge A share price decrease subsequent to an impairment charge leads to a further impairment	A subsequent recovery of value does not result in a reversal

At December 31, 2019, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Power Financial	64.1	Controlling interest	Consolidation
Lifeco [1]	66.9	Controlling interest	Consolidation
IGM [2]	62.1	Controlling interest	Consolidation
Pargesa [3]	27.8	Joint control	Equity method
Portag3 [4]	63.0	Controlling interest	Consolidation
Portag3 II [5]	7.7	Controlling interest	Consolidation
Wealthsimple [6]	21.2	Controlling interest	Consolidation
Koho [7]	6.5	Controlling interest	Consolidation
Investment Platforms and Other			
Sagard Europe			
Sagard II	22.0	Investment	Available for sale
Sagard 3	37.3	Investment	Available for sale
Sagard Holdings	100.0		
IntegraMed	91.6	Controlling interest	Consolidation
Peak	42.6	Joint control	Equity method
Sagard Credit Partners LP	18.0	Controlling interest	Consolidation
Investments	< 50.0	Significant influence or Investment	Equity method or available for sale
Power Pacific	100.0		
Investments	< 5.0	Investment	Available for sale
Power Energy	100.0		
Potentia	100.0	Controlling interest	Consolidation
Nautilus	100.0	Controlling interest	Consolidation
Lumenpulse	60.5	Controlling interest	Consolidation
Lion	44.2	Significant influence	Equity method
China AMC [8]	13.9	Significant influence	Equity method

[1] IGM also holds a 4.0% interest in Lifeco.

[2] Great-West Life also holds a 3.9% interest in IGM.

[3] Held through Parjointco, a jointly controlled corporation (50%).

[4] Lifeco and IGM also hold equal interests of 18.5% in Portag3.

[5] Lifeco and IGM also hold equal interests of 7.7% in Portag3 II, and Sagard Holdings holds a 4.7% interest.

[6] Portag3 and IGM also hold interests of 16.8% and 46.9%, respectively, in Wealthsimple.

[7] Lifeco and IGM also hold equal interests of 6.5% and Portag3 and Portag3 II hold interests of 2.7% and 32.1%, respectively, in Koho.

[8] IGM, through Mackenzie, also holds an interest of 13.9% in China AMC.

At December 31, 2019, Pargesa's main holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
GBL	50.0	Controlling interest	Consolidation
Publicly listed			
Imerys	54.0	Controlling interest	Consolidation
adidas	6.8	Investment	Available for sale
Pernod Ricard	7.5	Investment	Available for sale
SGS	16.7	Investment	Available for sale
LafargeHolcim	7.6	Investment	Available for sale
Umicore	18.0	Investment	Available for sale
Total	0.6	Investment	Available for sale
GEA	8.5	Investment	Available for sale
Ontex	20.0	Investment	Available for sale
Other investments	< 5.0	Investment	Available for sale
Privately held			
Sienna Capital [1]	100.0	Controlling interest	Consolidation
Webhelp	64.7	Controlling interest	Consolidation
Parques	23.0	Significant influence	Equity method

[1] Sienna Capital holds a portfolio of investments in alternative investment funds.

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2019 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies (Note 2);
- Investments (Note 6);
- Investments in jointly controlled corporations and associates (Note 8);
- Goodwill and intangible assets (Note 11); and
- Non-controlling interests (Note 20).

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

This MD&A presents and discusses financial measures which are not in accordance with IFRS. Management uses these financial measures in its presentation and analysis of the financial performance of Power Corporation, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. The non-IFRS financial measures used in this MD&A are defined as follows:

Non-IFRS financial measure	Definition	Purpose
Non-consolidated basis of presentation	Power Corporation's interests in Power Financial and its controlling interests in Lifeco, IGM, Portag3, Portag3 II, Wealthsimple and Koho as well as other subsidiaries consolidated by Power Corporation are accounted for using the equity method.	Used by the Corporation to present and analyze its results, financial position and cash flows. Presents the holding company's (parent) results separately from the results of its consolidated operating companies. As a holding company, management reviews and assesses the performance of each operating company's contribution to net earnings and adjusted net earnings. This presentation is useful to the reader to assess the impact of the contribution to earnings for each subsidiary.
Adjusted net earnings	Net earnings excluding the impact of Other items.	Assists in the comparison of the current period's results to those of previous periods as items that are not considered to be a part of ongoing operations are excluded.
Other items	After-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Includes the Corporation's share of items presented as other items by a subsidiary or a jointly controlled corporation.	Identifies items that are not considered part of ongoing operations. The exclusion of these items assists management and the reader in assessing current results as these items are not reflective of ongoing operations.
Adjusted net earnings per share	Earnings per share calculated using adjusted net earnings. Adjusted net earnings divided by the weighted average number of participating shares outstanding.	Assists in comparing adjusted net earnings on a per share basis.
Net asset value	Net asset value is the fair value of Power Corporation's non-consolidated assets less its net debt and preferred shares. The investments held in public entities (including Power Financial) are measured at their market value and investments in private entities and investment funds are measured at management's estimate of fair value.	Presents the fair value of the net assets of the holding company and is used to assist in assessing value. This measure may be used by investors and analysts in determining or comparing the fair value of investments held by the company or its overall fair value.
Net asset value per share	Net asset value calculated on a per share basis. Net asset value divided by the number of participating shares outstanding.	Assists the reader in comparing net asset value on a per share basis.

These non-IFRS financial measures do not have a standard meaning and may not be comparable to similar measures used by other entities. Reconciliations of the net asset value and the non-IFRS basis of presentation with the presentation in accordance with IFRS are included throughout this MD&A.

RECONCILIATION OF IFRS AND NON-IFRS FINANCIAL MEASURES

The following tables present a reconciliation of net earnings reported in accordance with IFRS to non-IFRS financial measures: adjusted net earnings, other items and related per share amounts. Adjusted net earnings and adjusted net earnings per share are presented in the section "Non-Consolidated Statements of Earnings":

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Net earnings – IFRS financial measure [1]	1,108	1,287	179	359	229
Share of Other items [2], net of tax					
Power Financial					
Lifeco	183	25	97	–	–
IGM	7	11	4	–	–
Pargesa	24	(12)	15	4	(12)
Corporate operations	6	–	6	–	–
Investment platforms and other	16	66	16	–	66
Corporate operations					
Operating and other expenses	(31)	61	–	(31)	–
	205	151	138	(27)	54
Adjusted net earnings – Non-IFRS financial measure [1]	1,313	1,438	317	332	283

[1] Attributable to participating shareholders of Power Corporation.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM, Pargesa, Investment platforms and other and corporate operations.

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Net earnings per share – IFRS financial measure [1]	2.53	2.77	0.42	0.84	0.49
Share of Other items [2], net of tax					
Power Financial					
Lifeco	0.42	0.06	0.23	–	–
IGM	0.02	0.02	0.01	–	–
Pargesa	0.05	(0.03)	0.03	0.01	(0.03)
Corporate operations	0.01	–	0.01	–	–
Investment platforms and other	0.04	0.14	0.04	–	0.14
Corporate operations					
Operating and other expenses	(0.07)	0.13	–	(0.07)	–
	0.47	0.32	0.32	(0.06)	0.11
Adjusted net earnings per share – Non-IFRS financial measure [1]	3.00	3.09	0.74	0.78	0.60

[1] Attributable to participating shareholders of Power Corporation.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM, Pargesa, Investment platforms and other and corporate operations.

Results of Power Corporation

This section presents:

- the "Consolidated Statements of Earnings in accordance with IFRS"; and
- the "Non-Consolidated Statements of Earnings", which present the contributions of Power Financial, its operating subsidiaries and Pargesa, and the contribution of the Corporation's investment platforms and other and China AMC to the net earnings and adjusted net earnings of Power Corporation.

Refer to the section "Non-IFRS Financial Measures and Presentation" for a description of the non-consolidated basis of presentation and a reconciliation of IFRS and non-IFRS financial measures.

DEFERRAL OF IFRS 9, *FINANCIAL INSTRUMENTS* (IFRS 9)

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts* and will be applied retrospectively. In June 2019, the IASB issued an Exposure draft, which provided targeted amendments to IFRS 17 including a deferral of one year of the effective date of the standard to January 1, 2022. In addition, the IASB extended to January 1, 2022 the exemption for insurers to apply the financial instruments standard, IFRS 9, *Financial Instruments*, so that both IFRS 9 and IFRS 17 will have the same effective date.

IGM, a subsidiary and Pargesa, held through Parjointco, a jointly controlled corporation, do not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted but not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation decided to continue applying accounting policies in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, to Pargesa's results. On consolidation, the Corporation has adjusted the results of both IGM and Pargesa to be in accordance with IAS 39. Refer to the specific discussion included in the IGM and Pargesa sections "Contribution to net earnings and adjusted net earnings".

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

Power Corporation's consolidated statements of earnings for the twelve months and three months ended December 31, 2019 are presented below. The Corporation's operating segments are Lifeco, IGM and Pargesa. This table reflects the contributions from Power Financial and the Corporation's investment platforms and other, which include controlled and consolidated investments, to the net earnings attributable to Power Corporation's participating shareholders.

Consolidated net earnings – Twelve months ended

	Lifeco	IGM [1]	Pargesa [2]	Power Financial Corporate [3]	Power Financial Sub-total	Other [4]	Power Corporation Consolidated net earnings December 31, 2019	Power Corporation Consolidated net earnings December 31, 2018
Revenues								
Total net premiums [5]	24,510	–	–	(21)	24,489	–	24,489	35,440
Net investment income	13,107	169	–	(29)	13,247	195	13,442	3,069
Fee income [5]	7,081	3,051	–	(66)	10,066	15	10,081	8,776
Other revenues	–	–	–	–	–	829	829	813
Total revenues	44,698	3,220	–	(116)	47,802	1,039	48,841	48,098
Expenses								
Total paid or credited to policyholders	33,091	–	–	–	33,091	–	33,091	32,068
Commissions	2,429	1,101	–	(50)	3,480	–	3,480	3,512
Operating and administrative expenses	6,013	1,055	–	169	7,237	1,104	8,341	8,175
Financing charges	285	108	–	42	435	109	544	462
Total expenses	41,818	2,264	–	161	44,243	1,213	45,456	44,217
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,880	956	–	(277)	3,559	(174)	3,385	3,881
Share of earnings of investments in jointly controlled corporations and associates	–	13	193	5	211	1	212	164
Earnings before income taxes	2,880	969	193	(272)	3,770	(173)	3,597	4,045
Income taxes	373	220	–	8	601	(47)	554	578
Net earnings	2,507	749	193	(280)	3,169	(126)	3,043	3,467
Attributable to								
Non-controlling interests	1,489	458	68	(111)	1,904	(21)	1,883	2,128
Non-participating shareholders	–	–	–	–	–	52	52	52
Participating shareholders of Power Corporation	1,018	291	125	(169)	1,265	(157)	1,108	1,287
	2,507	749	193	(280)	3,169	(126)	3,043	3,467

[1] Results reported by IGM are in accordance with IFRS 9. As the Corporation has not adopted IFRS 9, adjustments in accordance with IAS 39 have been recognized on consolidation by Power Financial and included in "Corporate".

[2] Results reported by Pargesa are in accordance with IFRS 9. Power Financial's share of earnings of Pargesa includes adjustments in accordance with IAS 39, including Power Financial's share of gains realized on the sale of investments classified as fair value through other comprehensive income (FVOCI) by Pargesa and an impairment charge.

[3] "Corporate" is comprised of the results of Portag3, Portag3 II, Wealthsimple and Koho, Power Financial's investment activities, corporate operations and consolidation entries.

[4] "Other" is comprised of the Corporation's investment platforms, which include consolidated investment funds, Power Energy and IntegraMed, as well as corporate operations and consolidation entries.

[5] As a result of Lifeco's sale, via indemnity insurance, of its U.S. individual life insurance and annuity business to Protective Life effective June 1, 2019, total net premiums include $13.9 billion of premiums ceded to Protective Life and fee income includes $1.1 billion of ceding commission received from Protective Life.

Consolidated net earnings – Three months ended

	Power Financial					Other [4]	Power Corporation Consolidated net earnings		
	Lifeco	IGM [1]	Pargesa [2]	Corporate [3]	Sub-total		December 31, 2019	September 30, 2019	December 31, 2018
Revenues									
Total net premiums	9,478	–	–	(6)	9,472	–	9,472	9,319	9,040
Net investment income	(304)	43	–	(6)	(267)	42	(225)	3,629	1,255
Fee income	1,515	779	–	(14)	2,280	5	2,285	2,252	2,146
Other revenues	–	–	–	–	–	197	197	222	220
Total revenues	10,689	822	–	(26)	11,485	244	11,729	15,422	12,661
Expenses									
Total paid or credited to policyholders	7,769	–	–	–	7,769	–	7,769	11,440	8,686
Commissions	650	278	–	(10)	918	–	918	830	932
Operating and administrative expenses	1,538	267	–	71	1,876	313	2,189	1,994	2,175
Financing charges	71	27	–	12	110	23	133	139	122
Total expenses	10,028	572	–	73	10,673	336	11,009	14,403	11,915
Earnings before investments in jointly controlled corporations and associates, and income taxes	661	250	–	(99)	812	(92)	720	1,019	746
Share of earnings of investments in jointly controlled corporations and associates	–	2	32	1	35	(1)	34	30	64
Earnings before income taxes	661	252	32	(98)	847	(93)	754	1,049	810
Income taxes	143	60	–	–	203	(19)	184	78	68
Net earnings	518	192	32	(98)	644	(74)	570	971	742
Attributable to									
Non-controlling interests	301	119	10	(45)	385	(7)	378	599	500
Non-participating shareholders	–	–	–	–	–	13	13	13	13
Participating shareholders of Power Corporation	217	73	22	(53)	259	(80)	179	359	229
	518	192	32	(98)	644	(74)	570	971	742

[1] Results reported by IGM are in accordance with IFRS 9. As the Corporation has not adopted IFRS 9, adjustments in accordance with IAS 39 have been recognized on consolidation by Power Financial and included in "Corporate".

[2] Results reported by Pargesa are in accordance with IFRS 9. Power Financial's share of earnings of Pargesa includes adjustments in accordance with IAS 39, including Power Financial's share of a gain realized on the sale of an investment classified as FVOCI by Pargesa.

[3] "Corporate" is comprised of the results of Portag3, Portag3 II, Wealthsimple and Koho, Power Financial's investment activities, corporate operations and consolidation entries.

[4] "Other" is comprised of the Corporation's investment platforms, which include consolidated investment funds, Power Energy and IntegraMed, as well as corporate operations and consolidation entries.

As a holding company, the Corporation evaluates the performance of each segment based on its contribution to net earnings and adjusted net earnings. A discussion of the results of Power Financial, including Lifeco, IGM and Pargesa, is provided in the "Contribution to net earnings and adjusted net earnings" section below.

NON-CONSOLIDATED STATEMENTS OF EARNINGS

In this section, the contributions from Power Financial, including the contributions from Lifeco, IGM and Pargesa, and the Corporation's investment platforms and other, which include controlled and consolidated investments, and China AMC, to the net earnings and adjusted net earnings attributable to Power Corporation's participating shareholders are accounted for using the equity method.

Contribution to adjusted and net earnings

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings [1]					
Power Financial					
Lifeco [2]	1,201	1,337	314	313	315
IGM [2]	298	306	77	78	73
Pargesa [2]	149	25	37	22	(35)
Corporate operations of Power Financial					
Income (loss) from investments	(5)	(10)	(4)	2	(6)
Operating and other expenses	(68)	(69)	(20)	(16)	(19)
Dividends on perpetual preferred shares	(90)	(91)	(23)	(22)	(23)
	1,485	1,498	381	377	305
Investment platforms and other [3]	(10)	88	(29)	(5)	(2)
China AMC	30	29	7	8	7
Corporate operations					
Operating and other expenses	(140)	(125)	(29)	(35)	(14)
Dividends on non-participating shares	(52)	(52)	(13)	(13)	(13)
Adjusted net earnings [4]	1,313	1,438	317	332	283
Other items [5]					
Power Financial					
Lifeco	(183)	(25)	(97)	–	–
IGM	(7)	(11)	(4)	–	–
Pargesa	(24)	12	(15)	(4)	12
Corporate operations	(6)	–	(6)	–	–
	(220)	(24)	(122)	(4)	12
Investment platforms and other	(16)	(66)	(16)	–	(66)
Corporate operations	31	(61)	–	31	–
	(205)	(151)	(138)	27	(54)
Net earnings [4]	1,108	1,287	179	359	229

[1] For a reconciliation of Power Financial including Lifeco, IGM and Pargesa's non-IFRS adjusted net earnings to their net earnings, refer to the "Contribution to net earnings and adjusted net earnings" section below.

[2] The contributions from Lifeco and IGM include an allocation of the results of Wealthsimple, Koho, Portag3 and Portag3 II, based on their respective interest. Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39.

[3] Investment platforms and other includes earnings (losses) from Power Energy, IntegraMed and Square Victoria Communications Group Inc. (up to the date of disposal in July 2018).

[4] Attributable to participating shareholders.

[5] See "Other items" section below.

Contribution to adjusted and net earnings per share

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings per share – basic					
Power Financial [1]	3.39	3.22	0.89	0.88	0.65
Investment platforms and other [2]	(0.02)	0.19	(0.07)	(0.01)	(0.01)
China AMC	0.07	0.06	0.02	0.02	0.02
Operating and other expenses, and dividends on non-participating shares	(0.44)	(0.38)	(0.10)	(0.11)	(0.06)
Adjusted net earnings per share [3]	3.00	3.09	0.74	0.78	0.60
Other items [4]					
Power Financial					
Lifeco	(0.42)	(0.06)	(0.23)	–	–
IGM	(0.02)	(0.02)	(0.01)	–	–
Pargesa	(0.05)	0.03	(0.03)	(0.01)	0.03
Corporate operations	(0.01)	–	(0.01)	–	–
	(0.50)	(0.05)	(0.28)	(0.01)	0.03
Investment platforms and other	(0.04)	(0.14)	(0.04)	–	(0.14)
Corporate operations	0.07	(0.13)	–	0.07	–
	(0.47)	(0.32)	(0.32)	0.06	(0.11)
Net earnings per share [3]	2.53	2.77	0.42	0.84	0.49

[1] Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39. For a reconciliation of Power Financial's adjusted net earnings per share to their net earnings per share, refer to the "Contribution to net earnings and adjusted net earnings" section below.

[2] Investment platforms and other includes earnings (losses) from Power Energy, IntegraMed and Square Victoria Communications Group Inc. (up to the date of disposal in July 2018).

[3] Attributable to participating shareholders.

[4] See "Other items" section below.

2019 vs. 2018	Q4 2019 vs. Q4 2018 and Q3 2019
Net earnings	
$1,108 million or $2.53 per share, compared with $1,287 million or $2.77 per share in the corresponding period in 2018, a decrease of 8.7% on a per share basis.	$179 million or $0.42 per share, compared with $229 million or $0.49 per share in the corresponding period in 2018, a decrease of 14.3% on a per share basis, and $359 million or $0.84 per share in the third quarter of 2019.
Adjusted net earnings	
$1,313 million or $3.00 per share, compared with $1,438 million or $3.09 per share in the corresponding period in 2018, a decrease of 2.9% on a per share basis.	$317 million or $0.74 per share, compared with $283 million or $0.60 per share in the corresponding period in 2018, an increase of 23.3% on a per share basis, and $332 million or $0.78 per share in the third quarter of 2019.
Contribution to net earnings and adjusted net earnings from Power Financial	
Contribution to net earnings of $1,265 million, compared with $1,474 million in the corresponding period in 2018, a decrease of 14.2%.	Contribution to net earnings of $259 million, compared with $317 million in the corresponding period in 2018, a decrease of 18.3%, and $373 million in the third quarter of 2019.
Contribution to adjusted net earnings of $1,485 million, compared with $1,498 million in the corresponding period in 2018, a decrease of 0.9%.	Contribution to adjusted net earnings of $381 million, compared with $305 million in the corresponding period in 2018, an increase of 24.9%, and $377 million in the third quarter of 2019.

A discussion of the results of the Corporation is provided in the sections "Contribution to net earnings and adjusted net earnings", "Investment Platforms and Other", "China AMC", "Corporate operations", and "Other items" below.

CONTRIBUTION TO NET EARNINGS AND ADJUSTED NET EARNINGS

POWER FINANCIAL

Contribution to Power Corporation

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Contribution to Power Corporation's [1]:					
Adjusted net earnings	1,485	1,498	381	377	305
Other items	(220)	(24)	(122)	(4)	12
Net earnings	1,265	1,474	259	373	317

[1] Power Corporation's average direct ownership in Power Financial was 64.5% for the year ended December 31, 2019 (65.5% in the corresponding period in 2018).

Adjusted and net earnings per share as reported by Power Financial

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings per share [1]	3.40	3.20	0.89	0.89	0.65
Other items	(0.51)	(0.05)	(0.29)	(0.01)	0.02
Net earnings per share [1]	2.89	3.15	0.60	0.88	0.67

[1] Attributable to Power Financial common shareholders.

Adjusted and net earnings as reported by Power Financial

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings					
Lifeco	1,864	2,040	492	488	480
IGM	465	462	116	124	105
Pargesa	230	39	56	35	(53)
	2,559	2,541	664	647	532
Corporate operations of Power Financial					
Income (loss) from investments	(8)	(15)	(6)	2	(8)
Operating and other expenses	(106)	(106)	(32)	(24)	(30)
Dividends on perpetual preferred shares	(139)	(138)	(35)	(35)	(34)
Adjusted net earnings [1]	2,306	2,282	591	590	460
Other items					
Lifeco	(285)	(39)	(151)	–	–
IGM	(11)	(16)	(6)	–	–
Pargesa	(37)	18	(24)	(6)	18
Corporate operations	(9)	–	(9)	–	–
	(342)	(37)	(190)	(6)	18
Net earnings [1]	1,964	2,245	401	584	478

[1] Attributable to Power Financial common shareholders.

2019 vs. 2018	Q4 2019 vs. Q4 2018 and Q3 2019
Net earnings	
$1,964 million or $2.89 per share, compared with $2,245 million or $3.15 per share in the corresponding period in 2018, a decrease of 8.3% on a per share basis.	$401 million or $0.60 per share, compared with $478 million or $0.67 per share in the corresponding period in 2018, a decrease of 10.4% on a per share basis, and $584 million or $0.88 per share in the third quarter of 2019.
Adjusted net earnings	
$2,306 million or $3.40 per share, compared with $2,282 million or $3.20 per share in the corresponding period in 2018, an increase of 6.3% on a per share basis.	$591 million or $0.89 per share, compared with $460 million or $0.65 per share in the corresponding period in 2018, an increase of 36.9% on a per share basis, and $590 million or $0.89 per share in the third quarter of 2019.

For more information on Power Financial's results, see Part B of this MD&A.

The operating segments of Power Financial and Power Corporation are Lifeco, IGM and Pargesa.

LIFECO

Contribution to Power Corporation

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Contribution to Power Corporation's [1]:					
Adjusted net earnings					
As reported by Lifeco	1,204	1,339	317	313	315
Consolidation entries	(3)	(2)	(3)	–	–
	1,201	1,337	314	313	315
Other items	(183)	(25)	(97)	–	–
Net earnings	1,018	1,312	217	313	315

[1] Power Financial's average direct ownership in Lifeco and Power Corporation's average direct ownership in Power Financial were 67.1% and 64.5%, respectively, for the year ended December 31, 2019 (67.7% and 65.5%, respectively, in the corresponding period in 2018).

Adjusted and net earnings per share as reported by Lifeco

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings per share [1]	2.944	3.052	0.797	0.786	0.719
Other items [2]	(0.450)	(0.056)	(0.245)	–	–
Net earnings per share [1]	2.494	2.996	0.552	0.786	0.719

[1] Attributable to Lifeco common shareholders.

[2] See "Other items" section below.

Adjusted and net earnings by segment as reported by Lifeco

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Canada					
Individual Customer	431	685	87	85	171
Group Customer	632	630	114	206	144
Canada Corporate	(12)	(40)	(13)	9	(5)
	1,051	1,275	188	300	310
United States					
Financial Services [1]	278	240	100	63	48
Asset Management	33	(61)	18	13	(29)
U.S. Corporate [2, 3]	(1)	52	(4)	1	–
Reinsured Insurance & Annuity Business [1, 3]	63	157	–	–	36
	373	388	114	77	55
Europe					
Insurance and Annuities	1,050	1,036	334	306	271
Reinsurance	353	377	124	55	89
Europe Corporate [3]	(21)	(46)	(14)	(4)	(11)
	1,382	1,367	444	357	349
Lifeco Corporate	(21)	(13)	(6)	(4)	(4)
Adjusted net earnings [4]	2,785	3,017	740	730	710
Other items [3]	(426)	(56)	(227)	–	–
Net earnings [4]	2,359	2,961	513	730	710

[1] The Reinsured Insurance & Annuity Business unit reflects business transferred to Protective Life under an indemnity reinsurance agreement effective on June 1, 2019. Comparative figures have been adjusted to reflect the current presentation.

[2] U.S. Corporate net earnings for the second quarter of 2018 included a net positive impact of $60 million arising from refinancing in the U.S. segment.

[3] Other items represent amounts which have been excluded from the Reinsured Insurance & Annuity Business unit of the U.S. segment and from the corporate business units of the U.S. and Europe segments. Refer to the "Other items" section.

[4] Attributable to Lifeco common shareholders.

2019 vs. 2018	Q4 2019 vs. Q4 2018 and Q3 2019
Net earnings	
$2,359 million or $2.494 per share, compared with $2,961 million or $2.996 per share in the corresponding period in 2018, a decrease of 16.8% on a per share basis. In the second quarter of 2019, Lifeco sold its U.S. individual life insurance and annuity business. Lifeco's net earnings for 2019 include a contribution of $63 million, compared with $157 million in the corresponding period in 2018.	$513 million or $0.552 per share, compared with $710 million or $0.719 per share in the corresponding period in 2018, a decrease of 23.2% on a per share basis, and $730 million or $0.786 per share in the third quarter of 2019. As a result of the sale of U.S. individual life insurance and annuity business during the second quarter of 2019, Lifeco's net earnings for the fourth quarter of 2019 do not include any earnings from this business, which contributed $36 million to net earnings in the fourth quarter of 2018.
Adjusted net earnings	
$2,785 million or $2.944 per share, compared with $3,017 million or $3.052 per share in the corresponding period in 2018, a decrease of 3.5% on a per share basis.	$740 million or $0.797 per share, compared with $710 million or $0.719 per share in the corresponding period in 2018, an increase of 10.8% on a per share basis, and $730 million or $0.786 per share in the third quarter of 2019.

CANADA

Net earnings for the twelve-month period ended December 31, 2019 decreased by $224 million to $1,051 million, compared with the corresponding period in 2018.

Net earnings for the three-month period ended December 31, 2019 decreased by $122 million to $188 million, compared with the corresponding quarter in 2018.

There were no Other items in the twelve-month period ended December 31, 2019 and in the corresponding period in 2018.

Individual Customer

Net earnings for the twelve-month period ended December 31, 2019 decreased by $254 million to $431 million, compared with the same period last year. The decrease was primarily due to:

- Unfavourable contributions from insurance contract liability basis changes; and
- Lower net fee income and less favourable policyholder behaviour experience;
- Partially offset by higher contributions from investment experience.

Net earnings for the three-month period ended December 31, 2019 decreased by $84 million to $87 million, compared with the same quarter last year. The decrease was primarily due to:

- Unfavourable contributions from insurance contract liability basis changes and less favourable impact of new business;
- Partially offset by higher contributions from investment experience.

Insurance contract liability basis changes in the fourth quarter of 2019 include the strengthening of actuarial reserves driven by impact of updates to policyholder behaviour assumptions, updates to morbidity assumptions and refinements to certain investment-related assumptions.

Group Customer

Net earnings for the twelve-month period ended December 31, 2019 increased by $2 million to $632 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from investment experience;
- Partially offset by lower contributions from insurance contract liability basis changes.

Net earnings for the three-month period ended December 31, 2019 decreased by $30 million to $114 million, compared with the same quarter last year. The decrease was primarily due to:

- Lower contributions from insurance contract liability basis changes and less favourable morbidity experience;
- Partially offset by higher contributions from investment experience.

Insurance contract liability basis changes in the fourth quarter of 2019 include the impact of updates to mortality assumptions and refinements to certain investment-related assumptions.

UNITED STATES

Net earnings for the twelve-month period ended December 31, 2019 were a net loss of $61 million, compared with net earnings of $388 million in the corresponding period in 2018. Adjusted net earnings were $373 million in the twelve-month period ended December 31, 2019, and excluded Other items of $434 million as discussed below. There were no Other items in the corresponding period in 2018.

Net earnings for the three-month period ended December 31, 2019 were a net loss of $121 million, compared with net earnings of $55 million in the corresponding quarter in 2018. Adjusted net earnings were $114 million in the three-month period ended December 31, 2019, and excluded Other items of $235 million as discussed below. There were no Other items in the corresponding period in 2018.

Financial Services

For the twelve-month period ended December 31, 2019, net earnings were US$211 million (C$278 million), compared with US$184 million (C$240 million) in the corresponding period in 2018. The increase of US$27 million was primarily due to:

- The impact of a valuation adjustment on an employee pension plan; and
- Higher contributions from investment experience and net business growth;
- Partially offset by lower contributions from insurance contract liability basis changes and higher operating expenses.

For the three-month period ended December 31, 2019, net earnings were US$76 million (C$100 million), compared with US$36 million (C$48 million) in the corresponding period in 2018. The increase of US$40 million was primarily due to:

- The impact of a valuation adjustment on an employee pension plan; and
- Higher contributions from investment experience and net business growth;
- Partially offset by higher operating expenses.

Asset Management

For the twelve-month period ended December 31, 2019, net earnings were US$24 million (C$33 million), compared with a net loss of US$47 million (C$61 million) in the corresponding period in 2018. The increase in net earnings of US$71 million was primarily due to:

- Higher net investment income on seed capital; and
- Lower operating expenses, which included the impact of expense reduction initiatives;
- Partially offset by lower net fee income.

Net earnings also include financing and other expenses after tax of US$35 million (C$45 million). Financing and other expenses decreased by US$4 million from the corresponding period in 2018 primarily due to lower net financing costs as a result of debt refinancing during the prior year.

For the three-month period ended December 31, 2019, net earnings were US$13 million (C$18 million), compared with a net loss of US$22 million (C$29 million) in the same quarter last year. The increase in net earnings of US$35 million was primarily due to higher net investment income on seed capital and higher net fee income. Net earnings in the fourth quarter of 2019 also includes financing and other expenses after tax of US$8 million (C$10 million), comparable to the corresponding quarter in 2018.

Reinsured Insurance & Annuity Business

For the twelve-month period ended December 31, 2019, the net loss was US$101 million (C$136 million) compared with net earnings of US$122 million (C$157 million) for the same period last year. Excluding other items which comprise a net charge of US$148 million (C$199 million) relating to the sale, via indemnity insurance, on June 1, 2019 to Protective Life (refer to the overview section "Lifeco"), adjusted net earnings were US$47 million (C$63 million), a decrease of US$75 million compared with the same period last year, reflecting the timing of the reinsurance transaction with Protective Life during the second quarter.

For the three-month period ended December 31, 2019, there was no earnings impact, compared with net earnings of US$27 million (C$36 million) for the same quarter last year. Following the sale, via indemnity reinsurance, to Protective Life on June 1, 2019, there were no additional sales, fee and other income and net earnings related to this business unit.

EUROPE

Net earnings for the twelve-month period ended December 31, 2019 increased by $79 million to $1,390 million, compared with the corresponding period in 2018. Adjusted net earnings in the twelve-month period ended December 31, 2019 were $1,382 million, and excluded Other items, discussed below, of a positive earnings impact of $8 million. Adjusted net earnings in the twelve-month period ended December 31, 2018 were $1,367 million, and excluded Other items, discussed below, of $56 million.

Net earnings for the three-month period ended December 31, 2019 increased by $103 million to $452 million, compared with the corresponding quarter in 2018. Adjusted net earnings in the three-month period ended December 31, 2019 were $444 million, and excluded Other items, discussed below, of a positive earnings impact of $8 million. There were no Other items in the three-month period ended December 31, 2018.

Insurance and Annuities

Net earnings for the twelve-month period ended December 31, 2019 increased by $14 million to $1,050 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from investment experience, which included the impact of bond and mortgage upgrades in 2019, and higher realized gains on surplus assets; and
- Favourable impact of new business, favourable mortality experience in the U.K. and the impact of changes to certain tax estimates, including the resolution of an outstanding issue with a foreign tax authority;
- Partially offset by the impact of impairment charges on mortgage loans and reductions in expected property cash flows primarily associated with a U.K. retail tenant entering a prepackaged administration, lower contributions from insurance contract liability basis changes and adverse morbidity experience in Ireland.

Net earnings for the three-month period ended December 31, 2019 increased by $63 million to $334 million, compared with the same quarter last year. The increase was primarily due to:

- The resolution of an outstanding issue with a foreign tax authority; and
- Higher contributions from investment experience;
- Partially offset by adverse morbidity experience in Ireland.

To address the evidence of an adverse trend in claims in Ireland, pricing action has been taken during 2019, which will take effect in 2020, and Lifeco will continue to monitor its progress.

Reinsurance

Net earnings for the twelve-month period ended December 31, 2019 decreased by $24 million to $353 million, compared with the same period last year. The decrease was primarily due to:

- Less favourable claims experience in the life and annuity business; and
- Lower contributions from insurance contract liability basis changes;
- Partially offset by higher business volumes and favourable initial impacts of new business.

Net earnings for the three-month period ended December 31, 2019 increased by $35 million to $124 million, compared with the same quarter last year. The increase was primarily due to:

- Favourable impacts from new business, which included the initial impact of a new €12 billion long-term longevity reinsurance agreement; and
- Higher business volumes;
- Partially offset by lower contributions from insurance contract liability basis changes and less favourable claims experience in the life and annuity business.

OTHER ITEMS

Adjusted net earnings in 2019 exclude a net charge of $426 million after tax consisting of:

- Net charge of $199 million (US$148 million) relating to the sale of the U.S. individual life insurance and annuity business recorded in the Reinsured Insurance and Annuity Business unit of the U.S. segment:
  - In the second quarter of 2019, Lifeco recognized a net loss on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life on June 1, 2019. The net charge included transaction costs of $63 million and $36 million related to updated expense assumptions related to stranded overhead on the retained business.
- Revaluation of a deferred tax asset resulted in a charge of $199 million (US$151 million) recorded in the Corporate business unit of the U.S. segment:
  - During the fourth quarter of 2019, Lifeco's management determined that a $199 million revaluation of a deferred income tax asset pertaining to Putnam was appropriate due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses generated in the earliest loss years.
- Restructuring charges of $36 million (US$28 million) recorded in the Corporate business unit of the U.S. segment:
  - During 2019, Putnam undertook actions to realign its resources to better position itself for current and future opportunities. These actions included technology modernization, product consolidation, a reduction in staff and facilities reorganization and resulted in restructuring charges in the fourth quarter which reduced net earnings by $36 million. Lifeco expects to realize US$33 million in pre-tax annual operating expense savings as a result of the restructuring activities by the end of the fourth quarter of 2020. As of December 31, 2019, approximately US$24 million in pre-tax annual operating expense savings have been achieved.
- Net gain of $8 million on the Scottish Friendly transaction recorded in the Corporate business unit of the Europe segment:
  - In 2018, Canada Life Limited, an indirect wholly owned U.K. subsidiary of Lifeco, announced an agreement to sell a heritage block of individual policies to Scottish Friendly, comprised of unit-linked policies and non-unit-linked policies. On October 22, 2019, the required court approval for the transfer of these policies was received and this transfer occurred, effective November 1, 2019. In the fourth quarter of 2019, Lifeco recognized a gain of $8 million after tax related to this transaction.

In 2018, Other items of $56 million after tax consisted of restructuring costs in the third quarter related to the U.K. operations.

The information above has been derived from Lifeco's annual MD&A; see Part C of this MD&A for additional information on Lifeco's results.

IGM FINANCIAL

Contribution to Power Corporation

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Contribution to Power Corporation's [1]:					
Adjusted net earnings					
As reported by IGM	305	319	80	80	72
Consolidation entries [2]	(7)	(13)	(3)	(2)	1
	298	306	77	78	73
Other items	(7)	(11)	(4)	–	–
Net earnings	291	295	73	78	73

[1] Power Financial's average direct ownership in IGM and Power Corporation's average direct ownership in Power Financial were 61.9% and 64.5%, respectively, for the year ended December 31, 2019 (61.4% and 65.5%, respectively, in the corresponding period in 2018).

[2] Contribution to Power Corporation includes adjustments made by Power Financial in accordance with IAS 39 and the allocation of the results of Wealthsimple, Koho, Portag3 and Portag3 II.

Adjusted and net earnings per share as reported by IGM (in accordance with IFRS 9)

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings per share [1]	3.19	3.29	0.84	0.85	0.75
Other items [2]	(0.07)	(0.11)	(0.04)	–	–
Net earnings per share [1]	3.12	3.18	0.80	0.85	0.75

[1] Available to IGM common shareholders.

[2] See "Other items" section below.

Adjusted and net earnings by segments as reported by IGM (in accordance with IFRS 9)

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
IG Wealth Management	770	766	206	206	172
Mackenzie	169	178	42	46	35
Corporate and other	155	186	40	37	43
Adjusted net earnings (before interest, income taxes, preferred share dividends and other) [1]	1,094	1,130	288	289	250
Interest expense, income taxes, preferred share dividends and other [2]	(330)	(338)	(87)	(87)	(70)
Adjusted net earnings [3]	764	792	201	202	180
Other items [4]	(17)	(25)	(9)	–	–
Net earnings [3]	747	767	192	202	180

[1] Non-IFRS financial measure described in Part D of this MD&A.

[2] Interest expense includes interest on long-term debt and also includes interest on leases of $4.1 million in the twelve-month period ended December 31, 2019, as a result of IGM's adoption of IFRS 16, *Leases*.

[3] Available to IGM common shareholders.

[4] IGM does not allocate Other items to segments.

2019 vs. 2018	Q4 2019 vs. Q4 2018 and Q3 2019
Net earnings	
$747 million or $3.12 per share, compared with $767 million or $3.18 per share in the corresponding period in 2018, a decrease of 1.9% on a per share basis.	$192 million or $0.80 per share, compared with $180 million or $0.75 per share in the corresponding period in 2018, an increase of 6.7% on a per share basis, and $202 million or $0.85 per share in the third quarter of 2019.
Adjusted net earnings	
$764 million or $3.19 per share, compared with $792 million or $3.29 per share in the corresponding period in 2018, a decrease of 3.0% on a per share basis.	$201 million or $0.84 per share, compared with $180 million or $0.75 per share in the corresponding period in 2018, an increase of 12.0% on a per share basis, and $202 million or $0.85 per share in the third quarter of 2019.

On January 1, 2018, IGM adopted IFRS 9, *Financial Instruments*. Power Corporation has deferred the adoption of IFRS 9 and continues to apply IAS 39. The contribution to Power Corporation includes adjustments to reverse the impact of the application of IFRS 9 by IGM.

In January 2019, IGM invested a further $67 million (US$50 million) in Personal Capital which increased its voting interest to 22.7%. IGM has significant influence and accounts for its interest as an associate using the equity method. In accordance with IFRS 9, IGM previously classified its interest in Personal Capital as fair value through other comprehensive income (FVOCI), in which fair value changes remain permanently in equity. In accordance with IAS 39, the Corporation accounted for IGM's investment in Personal Capital as available for sale. The reclassification of the investment in the first quarter from available for sale to an associate, under IAS 39, resulted in a gain; the contribution of IGM to Power Corporation has been adjusted accordingly.

Adjusted net earnings exclude a charge of $17 million in the twelve-month period ended December 31, 2019 and charges of $25 million in the corresponding period ended December 31, 2018. These Other items are not allocated to segments. The following is a summary of each segment's net earnings:

IG WEALTH MANAGEMENT

Net earnings increased by $4 million to $770 million in the twelve-month period ended December 31, 2019, compared with the corresponding period in 2018, due to:

- An increase in income from management fees of $30 million to $1,488 million. The increase was primarily due to an increase in average assets under management of 2.6%. The average management fee rate decreased by 0.5 basis points to 165.9 basis points of average assets under management, reflecting pricing reductions effective March 1, 2019; and
- An increase in net investment income of $10 million to $56 million, largely due to an increase of $9 million in fair value adjustments related to the mortgage banking operations;

Partially offset by:

- An increase in expenses of $24 million to $1,245 million in the twelve-month period, mainly due to an increase in non-commission expenses of $19 million, primarily due to increased technology expenses in the first quarter relating to the migration of clients to a new dealer platform and unbundled fee arrangements, as well as continued expenses associated with IG Wealth Management's brand relaunch;
- Asset-based compensation increased by $25 million in the twelve-month period primarily due to an increase in assets under management partially offset by a decrease in commissions of $19 million, primarily due to lower mutual fund sales partially offset by higher compensation related to the distribution of insurance products; and
- A decrease in administration fees of $11 million to $300 million. The decrease resulted primarily from the movement of assets into unbundled products which are not charged certain administration fees and changes in the composition of average assets under management.

Net earnings increased by $34 million to $206 million in the three-month period ended December 31, 2019, compared with the corresponding quarter in 2018, primarily due to:

- An increase in income from management fees of $25 million to $382 million. The increase was primarily due to an increase in average assets under management of 8.0%. The average management fee rate decreased by 0.9 basis points to 165.2 basis points of average assets under management, as explained above;
- An increase of net investment income of $6 million to $17 million, for the same reason as explained above; and
- A decrease in expenses of $4 million to $312 million in the three-month period, mainly due to a decrease in non-commission expenses of $8 million. The decrease was primarily due to advertising and marketing expenses resulting from the brand relaunch recorded in the fourth quarter of 2018. The increase in asset-based compensation of $7 million, due to an increase in average assets under management, was partially offset by a decrease in commission expenses of $4 million.

MACKENZIE

Net earnings decreased by $9 million to $169 million in the twelve-month period ended December 31, 2019, compared with the corresponding period in 2018, due to:

- An increase in expenses of $17 million to $643 million, due to an increase in non-commission expenses of $15 million and an increase in trailing commissions of $6 million related to the increase in average mutual fund assets, offset by a decline in the effective trailing commission rate, partially offset by a decrease in commission expense of $4 million;
- Partially offset by an increase in net investment income and other of $6 million to $4 million. Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds; and
- An increase in management fee revenue of $2 million to $704 million, mainly due to an increase in total average assets under management of 2.9%, offset by a decline in the effective management fee rate. The average management fee rate decreased by 2.5 basis points to 104.0 basis points due to a change in the composition of assets under management.

Net earnings increased by $7 million in the three-month period ended December 31, 2019, compared with the corresponding quarter in 2018, due to:

- An increase in management fee revenue of $11 million to $180 million, due to an increase in total average assets under management of 7.0%, offset by a decline in the average management fee rate of 0.5 basis points to 103.8 basis points; and
- An increase in net investment income and other of $4 million as explained above, and in administration fees of $2 million;
- Partially offset by an increase in expenses of $10 million to $167 million, as explained above.

ASSETS AND INVESTMENT FUND ASSETS UNDER MANAGEMENT

Total assets under management were as follows:

(In billions of dollars)	December 31, 2019	September 30, 2019	December 31, 2018	September 30, 2018
IG Wealth Management	93.2	90.8	83.1	89.0
Mackenzie	70.2	68.3	62.7	67.3
Corporate and other [1]	3.4	3.4	3.3	3.4
Total	166.8	162.5	149.1	159.7

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets subadvised by Mackenzie on behalf of other segments.

Total average daily investment fund assets under management were as follows:

				2019				2018
(In billions of dollars)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
IG Wealth Management	91.9	90.4	90.2	87.0	85.1	89.4	88.0	87.8
Mackenzie	63.0	61.8	60.8	58.2	57.1	59.5	57.9	57.1
Corporate and other [1]	4.6	4.6	4.7	4.7	4.8	5.1	5.0	5.2
Total	159.5	156.8	155.7	149.9	147.0	154.0	150.9	150.1

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets subadvised by Mackenzie on behalf of other segments.

OTHER ITEMS

Adjusted net earnings in 2019 exclude a net charge of $17 million, consisting of IGM's proportionate share of Lifeco's Other items of $9 million in the fourth quarter and $8 million in the second quarter.

Adjusted net earnings in 2018 excluded a net charge of $25 million after tax in the third quarter consisting of:

- Restructuring and other charges of $17 million: resulting from the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve IGM's offerings and operational effectiveness.
- A premium paid of $8 million: on early redemption of the $375 million 7.35% debentures on August 10, 2018.

The information above has been derived from IGM's annual MD&A; see Part D of this MD&A for more information on IGM's results.

PARGESA

Contribution to Power Corporation

(In millions of Canadian dollars)	Twelve months ended December 31, 2019	Twelve months ended December 31, 2018	Three months ended December 31, 2019	Three months ended September 30, 2019	Three months ended December 31, 2018
Contribution to Power Corporation's [1]:					
Adjusted net earnings					
As reported by Pargesa	118	76	34	26	14
Consolidation entries [2]	31	(51)	3	(4)	(49)
	149	25	37	22	(35)
Other items	(24)	12	(15)	(4)	12
Net earnings	125	37	22	18	(23)

[1] Power Financial's average ownership in Pargesa and Power Corporation's average direct ownership in Power Financial were 27.8% and 64.5%, respectively, for the year ended December 31, 2019 (27.8% and 65.5%, respectively, in the corresponding period in 2018).

[2] The Corporation has not adopted IFRS 9. The contribution to the Corporation includes an adjustment to account for Pargesa under IAS 39 as described below.

Adjusted and net earnings as reported by Pargesa (in accordance with IFRS 9)

(In millions of Swiss francs)	Twelve months ended December 31, 2019	Twelve months ended December 31, 2018	Three months ended December 31, 2019	Three months ended September 30, 2019	Three months ended December 31, 2018
Contribution from the portfolio to adjusted net earnings					
Share of earnings of:					
Imerys	87	129	16	21	29
Parques	(9)	3	(3)	1	6
Dividends:					
LafargeHolcim	64	58	–	–	–
SGS	50	50	–	–	–
Pernod Ricard	36	28	22	–	16
adidas	25	21	–	–	–
Total	21	21	4	7	5
Umicore	20	18	–	10	–
GEA	8	6	–	–	–
Ontex	4	6	–	–	–
Other [1]	67	1	1	48	–
Contribution from private equity activities and other investment funds	161	31	122	18	11
	534	372	162	105	67
Net financial income (charges)	(11)	(26)	(16)	10	(5)
General expenses and taxes	(31)	(29)	(7)	(8)	(5)
Adjusted net earnings [2, 3]	492	317	139	107	57
Other items	(101)	44	(64)	(16)	53
Net earnings [3]	391	361	75	91	110

[1] Other dividends in 2019 mainly consist of a reimbursement of withholding taxes in the second and third quarters by the French tax authorities related to dividends received from Total and Engie between 2013 and 2016.

[2] Described as "Economic operating income" in Part E of this MD&A.

[3] Attributable to Pargesa shareholders.

2019 vs. 2018	Q4 2019 vs. Q4 2018 and Q3 2019
Net earnings	
SF391 million, compared with SF361 million in the corresponding period in 2018, an increase of 8.3%.	SF75 million, compared with SF110 million in the corresponding period in 2018, a decrease of 31.8%, and SF91 million in the third quarter of 2019.
Adjusted net earnings	
SF492 million, compared with SF317 million in the corresponding period in 2018, an increase of 55.2%.	SF139 million, compared with SF57 million in the corresponding period in 2018, and SF107 million in the third quarter of 2019.

Adjustments to the contribution of Pargesa

On January 1, 2018, Pargesa adopted IFRS 9, *Financial Instruments*. The majority of its investments in public entities are classified as FVOCI, an elective classification for equity instruments in which all fair value changes remain permanently in OCI.

The investments in private equity and other investment funds are classified as fair value through profit or loss (FVPL). The transition requirements of IFRS 9 required that all unrealized gains and losses at January 1, 2018 on investments previously classified as available for sale remain permanently in equity. Starting January 1, 2018, subsequent changes in fair value are recorded in earnings.

Power Corporation has deferred the adoption of IFRS 9 and continues to apply IAS 39. The following table presents adjustments to the contribution of Pargesa to Power Corporation's earnings in accordance with IAS 39:

	Twelve months ended		Three months ended		
(In millions of dollars)	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Partial disposal of interest in adidas [1]	46	–	–	–	–
Partial disposal of interest in LafargeHolcim [2]	15	–	15	–	–
Impairment charges [3]	(8)	(74)	–	–	(51)
Disposal of private equity funds [4]	–	17	–	–	3
Disposal of Burberry [5]	–	12	–	–	–
Reversal of unrealized (gains) losses on private equity funds and other [6]	(22)	(6)	(12)	(4)	(1)
Total	31	(51)	3	(4)	(49)

[1] During the first and second quarters of 2019, a portion of the investment in adidas was disposed of, resulting in gains of SF49 million and SF144 million, respectively. These gains were not reflected in Pargesa's earnings as the investment is classified as FVOCI. Power Corporation's share of the realized gain was $12 million in the first quarter and $34 million in the second quarter.

[2] During the fourth quarter of 2019, a portion of the investment in LafargeHolcim was disposed of, resulting in a gain from the reversal of previous impairments of SF65 million. This gain was not reflected in Pargesa's earnings as the investment is classified as FVOCI. Power Corporation's share was $15 million.

[3] Under IFRS 9, Pargesa classifies the majority of its investments in public entities as FVOCI, and as a result impairment charges are not recognized in earnings. Power Financial recognized impairment charges on the following investments:

- Ontex – During the second quarter of 2018, the share price of Ontex decreased to €18.81 per share from a cost of €27.62 per share. Power Corporation recognized its share of the impairment charge of $22 million in the second quarter of 2018;

  During the remainder of 2018, the share price of Ontex decreased to €17.90 per share which resulted in further impairment charges, Power Corporation's share was $2 million;

  During the second quarter of 2019, the share price of Ontex decreased to €14.18 per share. An impairment charge of $8 million was recognized by Power Corporation, relating to its share of the impairment;
- GEA – During the fourth quarter of 2018, the share price declined to €22.50 per share from a cost of €35.63 per share, resulting in an impairment charge of SF118 million. Power Corporation's share was $28 million;
- LafargeHolcim – The investment in LafargeHolcim has been previously impaired, resulting in an adjusted cost of €37.10 per share. During the fourth quarter of 2018, the share price decreased to €35.83 per share, resulting in an impairment charge of SF59 million including a foreign exchange loss. Power Corporation's share was $15 million;
- Other investments – During the fourth quarter of 2018, Power Corporation's share of impairment charges on other investments was $7 million.

[4] During the first and fourth quarters of 2018, three investments held through private equity funds, classified as FVPL in accordance with IFRS 9, were disposed of, which resulted in realized gains of SF57 million and SF11 million, respectively. These realized gains have not been recognized in Pargesa's earnings as the investments were reclassified from available for sale to FVPL on transition to IFRS 9 on January 1, 2018. On transition, the related unrealized gains recorded in other comprehensive income were transferred permanently to retained earnings. Power Corporation's share of the realized gain was $17 million.

[5] During the second quarter of 2018, the investment in Burberry was disposed of, resulting in a gain of SF39 million. This gain was not reflected in Pargesa's earnings as it was classified as FVOCI. Power Corporation's share of the realized gain was $12 million.

[6] Pargesa classifies private equity investments at FVPL in accordance with IFRS 9, and recognizes unrealized changes in fair value in earnings. Power Corporation does not recognize these unrealized fair value changes in earnings as it continues to classify these private equity funds as available for sale in accordance with IAS 39.

Other than the share of earnings of Imerys and Parques, a significant portion of Pargesa's net earnings is composed of dividends from its non-consolidated investments, which are usually declared as follows:

- LafargeHolcim (second quarter)
- SGS (first quarter)
- adidas (second quarter)
- Umicore (second and third quarters)
- Total (second, third and fourth quarters)
- Pernod Ricard (second and fourth quarters)
- GEA (second quarter)
- Ontex (second quarter)

RESULTS

Net earnings in the twelve-month period ended December 31, 2019 increased by SF30 million to SF391 million, compared with the corresponding period in 2018. Adjusted net earnings in the twelve-month period ended December 31, 2019 were SF492 million, compared with SF317 million in the corresponding period in 2018. Other items, discussed below, were a charge of SF101 million in the twelve-month period ended December 31, 2019, compared with a positive earnings impact of SF44 million in 2018. The increase in net earnings is mainly due to:

- An increase in dividends of SF86 million to SF295 million, compared with SF209 million in the corresponding period in 2018. Dividends from its principal holdings increased by SF20 million, primarily due to the increase in dividends per share paid by certain portfolio companies, impact of additional investments made in Umicore and GEA, as well as the monetization of a stock dividend received from LafargeHolcim. Other dividends include SF62 million related to reimbursements by the French tax authorities for withholding taxes which had been applied to dividends received from Total and Engie between 2013 and 2016;
- An increase in the contribution from private equity activities and other investment funds of SF130 million, mainly due to fair value increases of the non-consolidated funds and realized gains of SF70 million on the sale of investments in Looping and opseo; and
- A decrease in net financial charges of SF15 million from the corresponding period in 2018 to SF11 million mainly due to income from default interest on the withholding taxes which have been applied to the dividend reimbursements discussed above, offset by the net impact of fair value adjustments to derivative instruments.

Partially offset by:

- A decrease in the contribution from Imerys to adjusted net earnings, excluding other items of SF49 million as discussed below, from SF129 million to SF87 million at December 31, 2019, primarily due to a decrease in revenue from a market slowdown, especially in the manufacturing sector which deteriorated throughout the year, the deconsolidation of the North American talc subsidiaries and to the temporary shutdown of a U.S. plant in the first half of 2019. The decline was partially offset by a positive effect of pricing and cost saving measures; and
- A decrease in the contribution from Parques of SF12 million to a loss of SF9 million at December 31, 2019.

Net earnings in the three-month period ended December 31, 2019 decreased by SF35 million to SF75 million, compared with the corresponding quarter in 2018. Adjusted net earnings in the three-month period ended December 31, 2019 were SF139 million, compared with SF57 million in the corresponding quarter in 2018. Other items, discussed below, were a charge of SF64 million in the three-month period ended December 31, 2019, compared with a net positive earnings impact of SF53 million in the corresponding quarter in 2018. The decrease in net earnings is mainly due to:

- A decrease in the contribution from Imerys to adjusted net earnings of SF13 million, from SF29 million to SF16 million at December 31, 2019, as explained above;
- A decrease in the contribution from Parques of SF9 million to a loss of SF3 million at December 31, 2019; and
- An increase in net financial charges of SF11 million to SF16 million in the fourth quarter of 2019.

Partially offset by:

- An increase in dividends of SF6 million to SF27 million, compared with SF21 million in the corresponding period in 2018. Dividends from its principal holdings increased by SF5 million; and
- An increase in the contribution from private equity activities and other investment funds of SF111 million, as explained above.

OTHER ITEMS

Other items in 2019 were SF101 million and mainly consisted of:

- Pargesa's share of Imerys' charges of SF49 million:
  - Charges of SF21 million relating to the implementation of a transformation program and charges related to the temporary shutdown of a U.S. plant, primarily recognized in the second quarter;
  - Charges of SF28 million relating to costs incurred by Imerys as part of its transformation program and depreciation of non-core assets due to the deconsolidation of the North American talc subsidiaries, recognized in the fourth quarter;
- Pargesa's share of Parques' charges of SF38 million: non-recurring expenses recorded by Parques, of which SF16 million was recognized in the third quarter and SF22 million in the fourth quarter; and
- Pargesa's share of SF11 million related to the contribution recognized by GBL following the acquisition of Webhelp, which primarily consists of GBL's share of transaction costs to complete the acquisition, recognized in the fourth quarter.

Other items in 2018 were a positive earnings impact of SF44 million mainly consisting of:

- Imerys' disposal of its roofing division, Imerys Toiture, in the fourth quarter. Pargesa's share of the gain amounted to SF235 million;
- Restructuring and other charges recognized by Imerys in the fourth quarter relating to its North American talc subsidiaries, ceramic proppants and graphite and carbon divisions. Pargesa's share of the restructuring and other charges recognized by Imerys were SF186 million, and also include other acquisition costs and provisions for rehabilitation and restructuring costs.

AVERAGE EXCHANGE RATES

The average exchange rates for the twelve-month and three-month periods ended December 31, 2019 and 2018 were as follows:

	Twelve months ended			Three months ended		
	December 31, 2019	December 31, 2018	Change %	December 31, 2019	December 31, 2018	Change %
Euro/SF	1.113	1.155	(3.6)	1.096	1.136	(3.5)
SF/CAD	1.335	1.325	0.8	1.334	1.326	0.6

The information above has been derived from Pargesa's 2019 year-end press release; see Part E of this MD&A for additional information on Pargesa's results.

INVESTMENT PLATFORMS AND OTHER

Investment platforms and other includes income earned from management fees net of investment platform expenses, income earned on the capital invested by the Corporation (proprietary capital) in each platform and the share of earnings (losses) of controlled and consolidated subsidiaries, associates and jointly controlled investments.

Summary of income (loss) from the Corporation's investment platforms and other:

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Investment platforms					
Sagard Europe					
Management fees [1]	22	21	7	5	5
Investment platform expenses	(33)	(26)	(8)	(5)	(7)
Income earned on proprietary capital [2]	(7)	205	(2)	(2)	39
	(18)	200	(3)	(2)	37
Sagard Holdings					
Management fees and carried interest	22	2	7	6	1
Investment platform expenses	(42)	(23)	(13)	(10)	(8)
Income earned on proprietary capital	18	9	5	2	(13)
Share of earnings (losses) [3]	(70)	(79)	(23)	(17)	(20)
	(72)	(91)	(24)	(19)	(40)
Power Pacific					
Investment platform expenses	(20)	(12)	(9)	(4)	(3)
Income earned on proprietary capital [4]	121	(17)	25	21	(39)
	101	(29)	16	17	(42)
Power Energy					
Investment platform expenses	(7)	(6)	(4)	(1)	(3)
Income earned on proprietary capital [5]	(1)	54	–	–	54
Share of earnings (losses)	(38)	(42)	(18)	(3)	(22)
	(46)	6	(22)	(4)	29
Investment platforms	(35)	86	(33)	(8)	(16)
Other					
Investment and hedge funds	24	6	4	(1)	2
Other [6]	1	(4)	–	4	12
Other	25	2	4	3	14
	(10)	88	(29)	(5)	(2)

[1] Includes management fees charged by the investment platform on proprietary capital. Management fees paid by the Corporation are included in income earned on proprietary capital.

[2] Income in 2018 includes gains distributed by the funds in the first and fourth quarters on the sale of investments.

[3] Includes the Corporation's share of earnings (losses) of IntegraMed, a controlled investment, and share of earnings (losses) of investments in a jointly controlled corporation and associates.

[4] Mainly comprised of gains (losses) realized on the disposal of investments and dividends received. The 2018 results include realized losses of $46 million recognized in the third and fourth quarters.

[5] The 2018 results include a gain of $62 million ($54 million net of tax) recognized on the sale of Eagle Creek.

[6] Consists mainly of foreign exchange gains or losses and interest on cash and cash equivalents and includes the results of Square Victoria Communications Group (up to date of disposal in July 2018).

Income earned from proprietary capital and earnings from Other Investments are volatile in nature as they depend on many factors, including and primarily related to the timing of realizations.

Impairment charges included in income (loss) from investment platforms and other were as follows:

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Sagard Holdings	33	37	–	23	37
Power Pacific	1	43	–	–	28
Investment and hedge funds	4	1	1	3	–
	38	81	1	26	65

SAGARD HOLDINGS

For the twelve-month period ended December 31, 2019, impairment charges were $33 million compared with $37 million for the same period in 2018. Impairment charges in 2019 mainly relate to an equity-accounted investment in the third quarter. In 2018, impairment charges were related to an equity-accounted investment and available-for-sale investments due to decline in equity values in December 2018. The impairment charges in 2019 and 2018 exclude Sagard Holdings' share of an impairment charge recognized by IntegraMed for an amount of $16 million (US$13 million) and $66 million (US$50 million), respectively, which was included in Other Items.

For the three-month period ended December 31, 2019, impairment charges were nil compared with $37 million for the same quarter in 2018.

POWER PACIFIC

For the twelve-month period ended December 31, 2019, impairment charges were $1 million compared with $43 million for the same period in 2018. Impairment charges in 2018 were due to a significant decline in the Chinese equity markets in the third and fourth quarters of 2018.

For the three-month period ended December 31, 2019, impairment charges were nil compared with $28 million for the same quarter in 2018.

CHINA AMC

For the twelve-month period ended December 31, 2019, income from China AMC was $30 million compared with $29 million for the same period in 2018.

For the three-month period ended December 31, 2019, income from China AMC was $7 million, the same as in the comparable quarter in 2018.

CORPORATE OPERATIONS

Corporate operations include operating expenses, financing charges, depreciation and income taxes.

Operating and other expenses

Summary of corporate operating and other expenses of the Corporation and its share of operating and other expenses of Power Financial:

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Power Financial [1]					
Operating expenses	53	55	17	12	16
Financing charges	12	12	3	3	3
Depreciation	2	1	–	1	–
Income taxes	1	1	–	–	–
	68	69	20	16	19
Power Corporation					
Operating expenses	102	88	32	23	21
Financing charges	37	43	9	9	9
Depreciation	13	12	3	2	3
Income taxes [2]	(12)	(18)	(15)	1	(19)
	140	125	29	35	14
	208	194	49	51	33

[1] Power Corporation's share of operating and other expenses of Power Financial. For the twelve-month period ended December 31, 2019, Power Financial's gross operating expenses were $83 million ($85 million in the corresponding period in 2018).

[2] Includes a gain on the sale of tax losses on December 31, 2019 and 2018. Refer to the "Transactions with Related Parties" section for more details.

OTHER ITEMS (NOT INCLUDED IN ADJUSTED NET EARNINGS)

The following table presents the Corporation's share of Other items:

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Power Financial					
Lifeco					
Net charge on the sale of U.S. individual life insurance and annuity business	(86)	–	–	–	–
Net charge on the revaluation of a deferred tax asset	(85)	–	(85)	–	–
Restructuring charges	(15)	(25)	(15)	–	–
Net gain on the Scottish Friendly transaction	3	–	3	–	–
	(183)	(25)	(97)	–	–
IGM					
Restructuring and other charges	–	(7)	–	–	–
Premium paid on early redemption of debentures	–	(3)	–	–	–
Share of Lifeco's other items	(7)	(1)	(4)	–	–
	(7)	(11)	(4)	–	–
Pargesa					
Imerys – Disposal of roofing activity	–	56	–	–	56
Imerys – Impairments, restructuring charges and other	(12)	(44)	(7)	–	(44)
Parques and other charges	(12)	–	(8)	(4)	–
	(24)	12	(15)	(4)	12
Corporate operations – Reorganization charges	(6)	–	(6)	–	–
	(220)	(24)	(122)	(4)	12
Investment platforms and other					
Sagard Holdings – Share of IntegraMed's goodwill impairment charge	(16)	(66)	(16)	–	(66)
Corporate operations					
Operating and other expenses					
Reduction of income tax estimates	31	–	–	31	–
Divestiture of La Presse operations	–	(54)	–	–	–
Premium paid on early redemption of debentures	–	(7)	–	–	–
	15	(127)	(16)	31	(66)
	(205)	(151)	(138)	27	(54)

For additional information, refer to the Lifeco, IGM and Pargesa "Other items" sections or "Investment Platforms and Other" section above.

Power Financial Corporate other items

During the fourth quarter of 2019, Power Financial incurred $9 million of costs related to the Reorganization, primarily related to legal and financial advisor fees. The Corporation's share was $6 million.

Investment Platforms and Other

In the fourth quarter of 2019, the Corporation's share of a goodwill impairment charge by IntegraMed was $16 million (US$13 million). In the fourth quarter of 2018, the Corporation's share of a goodwill impairment charge by IntegraMed was $66 million (US$50 million).

Corporate other items

In the third quarter of 2019, Other items of $31 million relate to a favourable change to income tax provision estimates.

In the third quarter of 2018, the Corporation transferred net assets of La Presse to a new not-for-profit structure and realized a loss of $54 million on the divestiture, which included a financial contribution to the not-for-profit structure of $50 million.

On September 6, 2018, the Corporation redeemed all of its $250 million 7.57% debentures due April 22, 2019. A premium of $7 million was paid on the early redemption.

Financial Position

CONSOLIDATED BALANCE SHEETS (CONDENSED)

The condensed balance sheets of Lifeco, IGM and other subsidiaries, as well as Power Corporation's and Power Financial's non-consolidated balance sheets are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation at December 31, 2019.

	Power Corporation	Power Financial	Lifeco	IGM	Other Subsidiaries and Consolidation adjustments [1]	Power Corporation Consolidated balance sheets	
						December 31, 2019	December 31, 2018
Assets							
Cash and cash equivalents	564	1,021	4,628	720	(128)	6,805	6,441
Investments [2]	2,976	203	163,756	7,555	(1,433)	173,057	182,656
Investment in:							
Power Financial, Lifeco and IGM	11,530	16,374	350	897	(29,151)	–	–
Parjointco	–	3,954	–	–	–	3,954	3,291
Other [3]	–	–	53	857	1,029	1,939	1,796
Assets held for sale	–	–	–	–	–	–	897
Funds held by ceding insurers	–	–	8,714	–	–	8,714	9,251
Reinsurance assets [2]	–	–	20,707	–	–	20,707	6,126
Other assets	450	137	11,553	1,472	1,273	14,885	12,789
Intangible assets	1	1	3,879	1,230	732	5,843	5,787
Goodwill	–	–	6,505	2,660	1,159	10,324	10,423
Investments on account of segregated fund policyholders	–	–	231,022	–	–	231,022	209,527
Investments on account of segregated fund policyholders held for sale	–	–	–	–	–	–	3,319
Total assets	15,521	21,690	451,167	15,391	(26,519)	477,250	452,303
Liabilities							
Insurance and investment contract liabilities	–	–	176,177	–	–	176,177	168,431
Liabilities held for sale	–	–	–	–	–	–	897
Obligations to securitization entities	–	–	–	6,914	–	6,914	7,370
Debentures and other debt instruments [4]	683	250	5,993	2,100	912	9,938	9,977
Other liabilities	664	625	12,432	1,878	1,015	16,614	14,736
Insurance and investment contracts on account of segregated fund policyholders	–	–	231,022	–	–	231,022	209,527
Insurance and investment contracts on account of segregated fund policyholders held for sale	–	–	–	–	–	–	3,319
Total liabilities	1,347	875	425,624	10,892	1,927	440,665	414,257
Equity							
Non-participating shares	960	2,830	2,714	–	(5,544)	960	962
Participating shareholders' equity [5]	13,214	17,985	19,963	4,499	(42,447)	13,214	14,156
Non-controlling interests [6, 7]	–	–	2,866	–	19,545	22,411	22,928
Total equity	14,174	20,815	25,543	4,499	(28,446)	36,585	38,046
Total liabilities and equity	15,521	21,690	451,167	15,391	(26,519)	477,250	452,303

[1] Other Subsidiaries and Consolidation adjustments includes Portag3, Portag3 II, Wealthsimple, Koho, investment platforms including consolidated investment funds, Power Energy and IntegraMed, as well as consolidation entries.

[2] As a result of Lifeco's indemnity reinsurance agreement with Protective Life on June 1, 2019, investments of $15.5 billion were derecognized and reinsurance assets of $15.2 billion were recognized.

[3] Includes investments in jointly controlled corporations and associates.

[4] The debentures and other debt instruments of controlled and consolidated investments are secured by their assets which are non-recourse to the Corporation.

[5] Opening retained earnings were decreased by $52 million as a result of the adoption of IFRS 16, *Leases* and the application of IFRIC 23, *Uncertainty over Income Tax Treatments;* refer to the "Changes in Accounting Policies" section for more details.

[6] Lifeco's non-controlling interests include the Participating Account surplus in subsidiaries.

[7] Non-controlling interests in consolidation adjustments represent non-controlling interests in the equity of Power Financial, Lifeco, IGM and controlled and consolidated investments.

Total assets of the Corporation increased to $477.3 billion at December 31, 2019, compared with $452.3 billion at December 31, 2018, primarily due to the impact of market movement and new business growth, partially offset by the impact of currency movement.

In June 2018, a subsidiary of Lifeco announced its agreement to sell a heritage block of policies to Scottish Friendly Assurance Society Limited (Scottish Friendly) and the amounts related to the unit-linked and non-unit-linked policies were classified as assets held for sale. On October 22, 2019, the required court approval for the transfer of these policies was received and the transfer occurred with effect from November 1, 2019. See Note 4 to the Corporation's 2019 Consolidated Financial Statements.

Liabilities increased to $440.7 billion at December 31, 2019, compared with $414.3 billion at December 31, 2018, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contracts on account of segregated fund policyholders increased by $21.5 billion, primarily due to the combined impact of market value gains and investment income of $27.3 billion, partially offset by the impact of currency movement of $6.5 billion.
- Insurance and investment contract liabilities increased by $7.7 billion, primarily due to fair value adjustments and the impact of new business, partially offset by the weakening of the euro, British pound, and U.S. dollar against the Canadian dollar.
- The transfer of a heritage block of policies to Scottish Friendly occurred with effect from November 1, 2019. See Note 4 to the Corporation's 2019 Consolidated Financial Statements.

Part B of this MD&A includes a discussion of the consolidated and non-consolidated balance sheets of Power Financial and Parts C and D of this MD&A include a discussion of the consolidated balance sheets of Lifeco and IGM, respectively.

NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation shown below, investments in subsidiaries are presented by the Corporation using the equity method. These non-consolidated balance sheets, which are not in accordance with IFRS, enhance the MD&A and assist the reader by identifying changes in Power Corporation's non-consolidated balance sheets.

	December 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents [1]	564	750
Investment in Power Financial	11,530	12,295
Investment platforms and other		
Sagard Europe	478	391
Sagard Holdings [2]	306	395
Power Pacific	730	510
Power Energy	655	561
Other Investments [3]	149	171
Investment in China AMC	658	679
Other assets	451	471
Total assets	15,521	16,223
Liabilities		
Debentures and other debt instruments	683	646
Other liabilities	664	459
Total liabilities	1,347	1,105
Equity		
Non-participating shares	960	962
Participating shareholders' equity	13,214	14,156
Total equity	14,174	15,118
Total liabilities and equity	15,521	16,223

[1] Cash equivalents include $116 million ($181 million at December 31, 2018) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified as investments in the Consolidated Financial Statements. Cash and cash equivalents also include cash held within Sagard Holdings and Power Pacific (see below).

[2] Includes investment in IntegraMed, accounted for using the equity method and investment in associates and a jointly controlled corporation.

[3] Other investments include portfolio investments in private investment funds and a select number of hedge funds. These investments are classified as available for sale and are carried at fair value. The Corporation had outstanding commitments to make future capital contributions to these funds for an aggregate amount of $48 million.

Cash and cash equivalents

Cash and cash equivalents held by the Corporation amounted to $564 million at December 31, 2019, compared with $750 million at the end of December 2018 (see "Non-consolidated Statements of Cash Flows" below for details). Of this amount, $178 million ($347 million at December 31, 2018) was held by Sagard Holdings and Power Pacific.

Investments

The tables below reconcile the investment in Power Financial and Power Energy, which are presented using the equity method for the purposes of the non-consolidated presentation; this presentation is not in accordance with IFRS.

INVESTMENT IN POWER FINANCIAL (AT EQUITY)

The carrying value of Power Corporation's investment in Power Financial, accounted for using the equity method, decreased to $11,530 million at December 31, 2019, compared with $12,295 million at December 31, 2018:

Carrying value, at the beginning of the year	12,295
Change in accounting policies [1]	(52)
Restated carrying value, at the beginning of the year	12,243
Participation in the PFC SIB	(1,400)
Share of adjusted net earnings	1,485
Share of other items	(220)
Share of other comprehensive income	35
Dividends	(794)
Other [2]	181
Carrying value, at December 31, 2019	11,530

[1] Refer to the "Changes in Accounting Policies" section for more details.

[2] Mainly related to a dilution gain as a result of the PFC SIB and the Lifeco SIB, and the effect of the share repurchase program as part of a normal course issuer bid by Lifeco and IGM.

INVESTMENT IN POWER ENERGY (AT EQUITY)

The carrying value of Power Corporation's investment in Power Energy, accounted for using the equity method, was $655 million at December 31, 2019, compared with $561 million at December 31, 2018.

Carrying value, at the beginning of the year	561
Investments	155
Share of net losses	(46)
Share of other comprehensive loss	(14)
Other	(1)
Carrying value, at December 31, 2019	655

INVESTMENT IN CHINA AMC

The carrying value of Power Corporation's investment in China AMC was $658 million at December 31, 2019, compared with $679 million at December 31, 2018.

Carrying value, at the beginning of the year	679
Dividends	(10)
Share of net earnings	30
Share of other comprehensive loss	(41)
Carrying value, at December 31, 2019	658

China AMC's assets under management, excluding subsidiary assets under management, were RMB¥1,032 billion (C$192 billion) at December 31, 2019, compared with RMB¥880 billion (C$175 billion) at December 31, 2018.

EQUITY

Non-participating shares

Non-participating (preferred) shares of the Corporation consist of six series of First Preferred Shares with an aggregate stated capital of $960 million at December 31, 2019 ($962 million at December 31, 2018), of which $950 million are non-cumulative. All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

The terms and conditions of the outstanding First Preferred Shares are described in Note 18 to the Corporation's 2019 Consolidated Financial Statements.

Participating shareholders' equity

Participating shareholders' equity was $13,214 million at December 31, 2019, compared with $14,156 million at December 31, 2018:

Twelve months ended December 31	2019	2018
Participating shareholders' equity, at the beginning of the year	14,156	13,414
Change in accounting policies [1]	(52)	–
Restated participating shareholders' equity, at the beginning of the year	14,104	13,414
Changes in retained earnings		
Net earnings before dividends on non-participating shares	1,160	1,339
Dividends declared	(920)	(752)
Repurchase of subordinate voting shares under PCC SIB	(1,350)	–
Effects of changes in capital and ownership of subsidiaries, and other	143	(52)
	(967)	535
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	(321)	398
Investment revaluation and cash flow hedges	160	(282)
Actuarial gains (losses) on defined benefit plans	(87)	21
Share of Pargesa and other jointly controlled corporations and associates	264	22
Share-based compensation, including the effect of subsidiaries	28	(1)
	44	158
Issuance of subordinate voting shares (1,422,502 shares in 2019 and 1,657,567 shares in 2018) under the Corporation's Executive Stock Option Plan	33	49
Participating shareholders' equity, at December 31	13,214	14,156

[1] Refer to the "Changes in Accounting Policies" section for more details.

The book value per participating share of the Corporation was $30.98 at December 31, 2019, compared with $30.38 at the end of 2018.

Outstanding number of participating shares

At the date of this MD&A, there were 54,860,866 participating preferred shares of the Corporation outstanding, compared with 48,854,772 at December 31, 2018, and 624,323,591 subordinate voting shares of the Corporation outstanding, compared with 417,101,146 at December 31, 2018. As part of the Reorganization, the Corporation issued 6,006,094 participating preferred shares on February 12, 2020 and 250,628,173 subordinate voting shares on February 13, 2020.

As part of the Reorganization, the Corporation assumed the Power Financial Employee Stock Option Plan. The 13,079,888 options outstanding at February 13, 2020 under Power Financial's Employee Stock Option Plan were exchanged for options to acquire subordinate voting shares of the Corporation (Replacement Options). The Replacement Options each entitle the option holders to receive 1.05 subordinate voting shares of the Corporation. At the date of this MD&A, options were outstanding to purchase up to an aggregate of 33,537,760 subordinate voting shares of the Corporation, which includes 13,709,449 subordinate voting shares issuable pursuant to Replacement Options, under the Corporation's Executive Stock Option Plan and the Power Financial Employee Stock Option Plan.

Substantial issuer bids

On April 17, 2019, Lifeco completed a substantial issuer bid and purchased for cancellation 59,700,974 of its common shares at a purchase price of $33.50 per common share. Power Financial participated in the Lifeco SIB and as a result its equity interest in Lifeco decreased from 67.8% to 66.8%.

On April 17, 2019, Power Financial completed a substantial issuer bid and purchased for cancellation 49,999,973 of its common shares at a purchase price of $33.00 per common share. The Corporation participated in the PFC SIB and as a result its equity interest in Power Financial decreased from 65.5% to 64.1%.

The decrease in ownership in Lifeco and Power Financial resulted in dilution gains of $71 million and $66 million, respectively, recorded in retained earnings and other comprehensive income reserve with a corresponding decrease in non-controlling interests.

On April 17, 2019, the Corporation completed its substantial issuer bid and purchased for cancellation 40,909,041 of its Subordinate Voting Shares at a purchase price of $33.00 per subordinate voting share for an aggregate amount of $1.35 billion. The excess paid under the PCC SIB over the stated capital of $1.28 billion was recognized as a reduction to retained earnings. Transaction costs incurred in connection with the PCC SIB of $5 million were recorded in retained earnings.

Net Asset Value

Net asset value is presented for Power Financial and Power Corporation. Net asset value represents management's estimate of the fair value of the common shareholders' equity of Power Financial and the participating shareholders' equity of the Corporation. Net asset value is the fair value of the assets of Power Financial and Power Corporation's non-consolidated balance sheet less their net debt and preferred shares. In determining the fair value of assets, investments in subsidiaries, jointly controlled corporations and associates are adjusted to fair value as follows:

- Investments in publicly traded companies are valued at their market value, measured as the closing share price on the reporting date;
- Investments in private entities are valued at fair value based on management's estimate using consistently applied valuation models either based on a valuation multiple or discounted cash flows. Certain valuations are prepared by external valuators or subject to review by external valuators. Market-comparable transactions are generally used to corroborate the estimated fair value. The value of investments in private entities is presented net of any management incentives;
- Investments in investment funds are valued at the fair value reported by the fund which is net of carried interest or other incentives.

The presentation of the investments in subsidiaries, jointly controlled corporations and associates at fair value is not in accordance with IFRS; net asset value is a non-IFRS financial measure.

POWER FINANCIAL

Power Financial's net asset value per share was $39.86 at December 31, 2019, compared with $32.96 at December 31, 2018, representing an increase of 20.9%.

	December 31, 2019			December 31, 2018		
	Non-consolidated balance sheet	Fair value adjustment	Net asset value	Non-consolidated balance sheet	Fair value adjustment	Net asset value
Assets						
Investments						
Lifeco [1]	13,654	6,976	20,630	15,088	3,780	18,868
IGM	2,720	2,795	5,515	2,688	1,902	4,590
Parjointco	3,954	(1,413)	2,541	3,291	(983)	2,308
Other [2]	203	127	330	184	90	274
Cash and cash equivalents	1,021	–	1,021	1,025	–	1,025
Other assets [3]	138	–	138	115	–	115
Total assets	21,690	8,485	30,175	22,391	4,789	27,180
Liabilities and preferred shares						
Debentures	250	–	250	250	–	250
Other liabilities [4]	625	–	625	561	–	561
Perpetual preferred shares	2,830	–	2,830	2,830	–	2,830
Total liabilities and preferred shares	3,705	–	3,705	3,641	–	3,641
Net value						
Common shareholders' equity / Net asset value	17,985	8,485	26,470	18,750	4,789	23,539
Per share	**27.08**		**39.86**	26.26		32.96

[1] As a result of Power Financial's participation in Lifeco's SIB in the second quarter of 2019, the number of shares held by the Corporation decreased by 7.4% or 49,318,032 from 669,568,064 to 620,250,032 (equity interest decreased from 67.8% to 66.8%).

[2] Fair value adjustment is related to Power Financial's investments in Portag3, Portag3 II, Wealthsimple and Koho.

[3] Includes $83 million of dividends declared in the fourth quarter by IGM and received by Power Financial on January 31, 2020 (same as at December 31, 2018).

[4] Includes $337 million of dividends declared in the fourth quarter by Power Financial and paid on January 31, 2020 ($344 million at December 31, 2018).

Investments measured at market value and cash represent 98.4% of Power Financial's total assets at fair value at December 31, 2019 (98.6% at December 31, 2018).

Power Financial's net asset value per share was $28.01, based on: i) market values of publicly listed investments at March 17, 2020 and ii) fair values for non-publicly listed investments at December 31, 2019.

POWER CORPORATION

The Corporation's net asset value per share was $40.07 at December 31, 2019, compared with $30.74 at December 31, 2018, representing an increase of 30.4%.

	December 31, 2019				December 31, 2018			
	Non-consolidated balance sheet	Reclassifications	Fair value adjustment	Net asset value	Non-consolidated balance sheet	Reclassifications	Fair value adjustment	Net asset value
Assets								
Investments								
Power Financial [1]	11,530	–	3,334	14,864	12,295	–	(211)	12,084
Sagard Europe [2]	478	–	–	478	391	–	–	391
Sagard Holdings [2, 3]	306	156	74	536	395	181	3	579
Power Pacific [2, 3]	730	9	–	739	510	159	–	669
Power Energy	655	–	420	1,075	561	–	363	924
China AMC [4]	658	–	–	658	679	–	–	679
Other investments	149	–	49	198	171	–	18	189
Cash and cash equivalents [3]	564	(178)	–	386	750	(347)	–	403
Other assets [5]	451	–	–	451	471	–	–	471
Total assets	15,521	(13)	3,877	19,385	16,223	(7)	173	16,389
Liabilities and non-participating shares								
Debentures and other debt instruments	683	–	–	683	646	–	–	646
Other liabilities [6]	664	(13)	–	651	459	(7)	–	452
Non-participating shares	960	–	–	960	962	–	–	962
Total liabilities and non-participating shares	2,307	(13)	–	2,294	2,067	(7)	–	2,060
Net value								
Participating shareholders' equity / Net asset value	13,214	–	3,877	17,091	14,156	–	173	14,329
Per share	**30.98**			**40.07**	30.38			30.74

[1] As a result of the Corporation's participation in the PFC SIB in the second quarter of 2019, the number of shares held by the Corporation decreased by 9.1% or 42,436,370 from 467,839,296 to 425,402,926 (equity interest decreased from 65.5% to 64.1%).

[2] The management companies of the investment funds are presented at their carrying value in accordance with IFRS.

[3] Cash of $178 million related to Sagard Holdings and Power Pacific has been included in the fair value ($347 million at December 31, 2018).

[4] Valued at carrying value in accordance with IFRS.

[5] Includes $194 million of dividends declared in the fourth quarter by Power Financial and received by the Corporation on January 31, 2020.

[6] Performance-related compensation payable of $13 million is presented in the fair value of Power Pacific ($3 million in Power Pacific and $4 million in Sagard Holdings at December 31, 2018).

Investments measured at market value and cash represent 83.9% of the total assets at fair value at December 31, 2019 (82.7% at December 31, 2018).

The Corporation's net asset value, presented on a look-through basis, where the investment in Power Financial is based on the Corporation's share of Power Financial's net asset value, was $19.2 billion or $44.98 per share at December 31, 2019 ($17.7 billion or $37.91 per share at December 31, 2018). The additional fair value adjustment of $2.1 billion ($3.3 billion at December 31, 2018) mainly relates to the Corporation's share of its investment in Lifeco, IGM and Pargesa at market value.

The Corporation's net asset value per share was $33.08, presented on a look-through basis, based on: i) market values of publicly listed investments at March 17, 2020 and ii) fair values for non-publicly listed investments at December 31, 2019.

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

The condensed cash flows of Lifeco, IGM and the Corporation's investment platforms and other, as well as Power Corporation's and Power Financial's non-consolidated cash flows, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the twelve-month period ended December 31, 2019.

					Power Financial			Power Corporation Consolidated	
Twelve months ended December 31,	Power Financial	Lifeco	IGM	Consolidation adjustments and other	Power Financial Consolidated	Power Corporation	Investment platforms and Consolidation adjustments[1]	2019	2018
Cash flows from:									
Operating activities	1,414	6,110	712	(1,528)	6,708	689	(776)	6,621	7,116
Financing activities	(3,035)	(3,981)	(1,069)	3,213	(4,872)	(2,040)	2,281	(4,631)	(2,154)
Investing activities	1,617	(1,539)	427	(1,563)	(1,058)	1,182	(1,602)	(1,478)	(4,608)
Effect of changes in exchange rates on cash and cash equivalents	–	(130)	–	–	(130)	(17)	(1)	(148)	184
Increase (decrease) in cash and cash equivalents	(4)	460	70	122	648	(186)	(98)	364	538
Cash and cash equivalents, at the beginning of the year	1,025	4,168	650	(219)	5,624	750	67	6,441	5,903
Cash and cash equivalents, at December 31	1,021	4,628	720	(97)	6,272	564	(31)	6,805	6,441

[1] Investment platforms and consolidation adjustments include investment platforms, including consolidated investment funds, Power Energy and IntegraMed, as well as consolidation entries.

Consolidated cash and cash equivalents increased by $364 million in the twelve-month period ended December 31, 2019, compared with an increase of $538 million in the corresponding period in 2018.

Operating activities produced a net inflow of $6,621 million in the twelve-month period ended December 31, 2019, compared with a net inflow of $7,116 million in the corresponding period in 2018.

Cash flows from financing activities, which include the repurchase of shares pursuant to the Lifeco SIB, the PFC SIB and the PCC SIB, dividends paid on the participating and non-participating shares of the Corporation, and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of $4,631 million in the twelve-month period ended December 31, 2019, compared with a net outflow of $2,154 million in the corresponding period in 2018.

Cash flows from investing activities resulted in a net outflow of $1,478 million in the twelve-month period ended December 31, 2019, compared with a net outflow of $4,608 million in the corresponding period in 2018.

The Corporation decreased its level of fixed income securities with maturities of more than three months, resulting in a net inflow of $65 million in the twelve-month period ended December 31, 2019, compared with a net outflow of $2 million in the corresponding period in 2018.

Parts B, C and D of this MD&A include a discussion of the cash flows of Power Financial, Lifeco and IGM, respectively.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Corporation is a holding company, corporate cash flows are primarily comprised of dividends received, income from investments and income (loss) from cash and cash equivalents, less operating expenses, financing charges, income taxes, and non-participating and participating share dividends. Dividends received from Power Financial, which is also a holding company, represent a significant component of the Corporation's corporate cash flows.

The following non-consolidated statements of cash flows of the Corporation, which are not presented in accordance with IFRS, have been prepared to assist the reader as they isolate the cash flows of Power Corporation, the parent company.

Twelve months ended December 31	2019	2018
Operating activities		
Dividends from Power Financial	803	801
Dividends from China AMC	10	12
Corporate operations, net of non-cash items	(124)	(161)
	689	652
Financing activities		
Dividends paid on non-participating shares	(52)	(52)
Dividends paid on participating shares	(695)	(700)
Issuance of subordinate voting shares	30	43
Repurchase of subordinate voting shares under PCC SIB	(1,350)	–
Repurchase of non-participating shares	(2)	(3)
Issuance of debentures	–	250
Redemption of debentures	–	(250)
Increase in other debt instruments	37	–
Share repurchase expenses and other	(8)	(2)
	(2,040)	(714)
Investing activities		
Proceeds from disposal of investments	1,085	1,127
Purchase of investments	(1,150)	(887)
Investments in controlled and consolidated investments	(155)	(90)
Proceeds from tender of Power Financial shares under PFC SIB	1,400	–
Other	2	(6)
	1,182	144
Effect of changes in exchange rates on cash and cash equivalents	(17)	22
Increase (decrease) in cash and cash equivalents	(186)	104
Cash and cash equivalents, at the beginning of the year	750	646
Cash and cash equivalents, at December 31	564	750
Cash and cash equivalents:		
Corporate	386	403
Sagard Investment Funds	178	347
	564	750

On a non-consolidated basis, cash and cash equivalents decreased by $186 million in the twelve-month period ended December 31, 2019, compared with an increase of $104 million in the corresponding period in 2018.

Operating activities resulted in a net inflow of $689 million in the twelve-month period ended December 31, 2019, compared with a net inflow of $652 million in the corresponding period in 2018.

- Dividends paid by Power Financial on its common shares during the twelve-month period ended December 31, 2019 were $1.7995 per share, compared with $1.7115 per share in the corresponding period in 2018. Power Corporation received dividends of $803 million from Power Financial in the twelve-month period ended December 31, 2019, compared with $801 million in the corresponding period in 2018.

The Corporation's financing activities during the twelve-month period ended December 31, 2019 were a net outflow of $2,040 million, compared with a net outflow of $714 million in the corresponding period in 2018, and included:

- Dividends paid on non-participating and participating shares by the Corporation of $747 million, compared with $752 million in the corresponding period in 2018. In the twelve-month period ended December 31, 2019, dividends paid on the Corporation's participating shares were $1.5970 per share, compared with $1.5045 per share in the corresponding period in 2018.
- Issuance of subordinate voting shares of the Corporation for $30 million pursuant to the Corporation's Executive Stock Option Plan, compared with issuance for an amount of $43 million in the corresponding period in 2018.
- Repurchase of subordinate voting shares pursuant to the PCC SIB of $1,350 million, compared with no repurchase in the corresponding period in 2018.
- Increase in other debt instruments of $37 million, compared with nil in the corresponding period in 2018.
- Issuance of debentures of nil, compared with issuance of $250 million in the corresponding period in 2018.
- Redemption of debentures of nil, compared with a redemption of $250 million in the corresponding period in 2018.
- Repurchase of non-participating shares for cancellation of $2 million, compared with $3 million in the corresponding period in 2018.

The Corporation's investing activities during the twelve-month period ended December 31, 2019 were a net inflow of $1,182 million, primarily due to proceeds received from participation in the PFC SIB, compared with a net inflow of $144 million in the corresponding period in 2018.

Proceeds from disposal of investments and purchase of investments are comprised of investment activities of the Corporation and its investment platforms.

Capital Management

As a holding company, Power Corporation's objectives in managing its capital are to:

- provide attractive long-term returns to shareholders of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present;
- maintain a capital structure that matches the long-term nature of its investments by maximizing the use of permanent capital; and
- maintain an appropriate credit rating to ensure stable access to the capital markets.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital.

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of participating shares, non-participating shares and debentures. The boards of directors of the Corporation's subsidiaries, as well as those of Pargesa and GBL, oversee and have the responsibility for their respective company's capital management.

With the exception of debentures and other debt instruments, the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of: debentures, non-participating shares, participating shareholders' equity, and non-controlling interests. The Corporation views non-participating shares as a cost-effective source of permanent capital.

On April 17, 2019, the Corporation completed the PCC SIB and repurchased for cancellation $1.35 billion of its subordinate voting shares. The PCC SIB facilitated the repurchase of subordinate voting shares at attractive market valuations and returned capital to shareholders while maintaining the financial resources to pursue its strategy for long-term value creation across its well-diversified portfolio of investments.

Subsequent to the Reorganization, the Corporation holds 100% of the issued and outstanding common shares of Power Financial, Power Financial's preferred shares and debt securities remain outstanding.

The Corporation's consolidated capitalization includes the debentures, preferred shares and other debt instruments issued by its consolidated subsidiaries. Debentures and other debt instruments issued by Power Financial, Lifeco, IGM and controlled investments are non-recourse to the Corporation. The Corporation does not guarantee debt issued by its subsidiaries. Non-participating shares and total equity accounted for 79% of consolidated capitalization at December 31, 2019.

	December 31, 2019	December 31, 2018
Debentures and other debt instruments		
Power Corporation	683	646
Power Financial	250	250
Lifeco	5,993	6,459
IGM	2,100	1,850
Other [1, 2]	1,005	838
Consolidation adjustments	(93)	(66)
	9,255	9,331
	9,938	9,977
Non-participating shares		
Power Corporation	960	962
Power Financial	2,830	2,830
Lifeco	2,714	2,714
IGM	–	150
	5,544	5,694
	6,504	6,656
Equity		
Participating shareholders' equity	13,214	14,156
Non-controlling interests [3]	16,867	17,234
	30,081	31,390
	46,523	48,023

[1] Other includes IntegraMed and entities controlled by Power Energy.

[2] Secured by the assets of the controlled investments which are non-recourse to the Corporation.

[3] Represents the non-controlling equity interests of the Corporation's subsidiaries excluding Power Financial, Lifeco, and IGM's preferred shares, which are shown in this table as non-participating shares.

Power Corporation

- The Corporation filed a short-form base shelf prospectus dated November 16, 2018, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of $2 billion of First Preferred Shares, subordinate voting shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.

SUBSEQUENT EVENT

- As part of the Reorganization, the Corporation issued 6,006,094 participating preferred shares on February 12, 2020 for consideration of $206 million and 250,628,173 subordinate voting shares on February 13, 2020. Refer to the section "Overview – 2019 Highlights" for more information.

- The Corporation commenced a Normal Course Issuer Bid (NCIB) on February 20, 2020 which is effective until the earlier of February 19, 2021 and the date on which the Corporation has purchased the maximum permitted number of subordinate voting shares. Pursuant to this bid, the Corporation may purchase up to 30 million of its subordinate voting shares outstanding at February 20, 2020 (representing approximately 5.2% of the public float of subordinate voting shares outstanding).

  In connection with its NCIB, the Corporation has entered into an automatic securities purchase plan for its subordinate voting shares. The automatic securities purchase plan provides standard instructions regarding how the Corporation's subordinate voting shares are to be purchased under its NCIB during certain predetermined trading blackout periods. Outside of these predetermined trading blackout periods, purchases under the Corporation's NCIB will be completed based upon management's discretion.

Lifeco

- On December 10, 2019, Great-West Life & Annuity Insurance Capital, LP redeemed all $232 million (US$175 million) aggregate principal amount 6.625% deferrable debentures due November 15, 2034 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest up to but excluding the redemption date. A portion of the $1.0 billion cash received from the indemnity reinsurance agreement with Protective Life was used for the redemption.

IGM

- On March 20, 2019, IGM issued $250 million of 4.206% debentures maturing March 21, 2050. Part of the proceeds were used by IGM to fund the redemption of its $150 million issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B on April 30, 2019.

The Corporation itself is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries, IGM's subsidiaries and certain of the Corporation's other subsidiaries are subject to regulatory capital requirements. Parts B, C and D of this MD&A further describe the capital management activities of Power Financial, Lifeco and IGM, respectively. See Note 21 to the Corporation's 2019 Consolidated Financial Statements for additional information.

RATINGS

The current rating by Standard & Poor's (S&P) of the Corporation's debentures is "A+" with a stable outlook, which was increased on December 13, 2019 from a rating of "A" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Corporation's debentures is "A" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites. These ratings are not a recommendation to buy, sell or hold the securities of a corporation and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The "A+" rating assigned to the Corporation's debentures by S&P is the fifth highest of the 22 ratings used for long-term debt. A long-term debenture rated "A+" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

The "A" rating assigned to the Corporation's debentures by DBRS is the sixth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A" implies that the capacity for repayment is substantial, but of lesser credit quality than AA, and may be vulnerable to future events, although qualifying negative factors are considered manageable.

Risk Management

Power Corporation is an international management and holding company that focuses on financial services in North America, Europe and Asia. Its core holdings are leading insurance, retirement, wealth management and investment businesses including a portfolio of alternate asset investment platforms. Its principal asset is a controlling interest in Power Financial which in turn controls Lifeco and IGM and also holds a joint controlling interest in Parjointco, which itself holds a controlling interest in GBL through Pargesa. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. A complete description of these risks is presented in their public disclosures. The respective boards of directors of Power Financial, Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain officers of the Corporation are members of these boards and committees of these boards and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies. Parts B, C and D of this MD&A further describe risks related to Power Financial, Lifeco and IGM, respectively.

RISK OVERSIGHT APPROACH

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors and executive officers of the Corporation have overall oversight and responsibility for risk management associated with the investment activities and operations of the holding company and maintain a comprehensive and appropriate set of policies and controls.

The Board of Directors provides oversight and carries out its risk management mandate primarily through the following committees:

- The Audit Committee addresses risks related to financial reporting and cybersecurity.
- The Compensation Committee considers risks associated with the Corporation's compensation policies and practices.
- The Governance and Nominating Committee oversees the Corporation's approach to appropriately address potential risks related to governance matters.
- The Related Party and Conduct Review Committee reviews and considers for approval transactions with related parties of the Corporation.

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following risks and others discussed elsewhere in the MD&A, which investors should carefully consider before investing in securities of the Corporation. The following is a review of certain risks that could impact the financial condition and financial performance, and the value of the equity of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

STRATEGIC RISK

Strategic risk arises as a result of ineffective strategic decision making, inadequate strategies or a lack of responsiveness to important changes to the business environment, including macroeconomic or country risk events, or changes to the regulatory environment. In addition, strategic risk includes risks associated with the Corporation's holding company structure and potential future acquisitions.

The successful execution of the Corporation's investment strategy is uncertain as it requires suitable opportunities, careful timing and business judgment. The Corporation's approach consists in overseeing, through the Board of Directors, its operating businesses and investments with a view to generate long-term, sustainable growth in earnings and dividends. The Corporation aims to act like an owner with a long-term perspective and a strategic vision anchored in strong core values.

The Chief Executive Officer is responsible for developing the Corporation's proposed strategic plans, in light of emerging opportunities and risks and with a view to the Corporation's sustained profitable growth and long-term value creation, and for implementing the approved strategic plans. The Board of Directors is responsible for approving the long-term goals and objectives for the Corporation; and, after considering alternatives, approving the strategic plans developed by the Chief Executive Officer. The Board of Directors also monitors senior management's implementation of the approved plans; assesses the achievement of the Corporation's goals and objectives; reviews and approves on at least an annual basis management's financial plan; and reviews and approves any significant transactions and strategic capital management decisions regarding the Corporation.

LIQUIDITY RISK

Liquidity risk is the risk that the Corporation would not be able to meet all cash outflow obligations as they come due or be able to, in a timely manner, raise capital or monetize assets at normal market conditions.

As a holding company, Power Corporation's ability to meet its obligations, including payment of interest, other operating expenses and dividends, and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon dividends from its principal subsidiaries and other investments, and its ability to raise additional capital. Dividends to shareholders of Power Corporation are dependent on the operating performance, profitability, financial position and creditworthiness of its subsidiaries, jointly controlled corporations and associates, as well as on their ability to pay dividends. The payment of interest and dividends by Power Financial's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained.

The Corporation makes certain investments through its investment platforms in the securities of private companies and illiquid securities. These investments may offer relatively high potential returns, but may also be subject to a relatively higher degree of risk. From time to time, it may be in the best interests of the Corporation to exit these investments. However, securities of private companies and illiquid securities may not have a ready market and the Corporation may be unable to sell such securities at acceptable prices on a timely basis or at all. Illiquidity may limit the Corporation's ability to realize a return or to vary components of its investment portfolio promptly in response to changing conditions. In some cases, the Corporation may also be restricted by contract or by applicable laws from selling such securities for a period of time. The valuation of private companies is inherently difficult because there is a certain level of uncertainty in the assumptions used to determine the fair value of these investments.

The Corporation regularly reviews its liquidity requirements and seeks to maintain a sufficient level of liquidity to meet its operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time, as defined in its policies. The ability of Power Corporation to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Corporation and its subsidiaries. Although the Corporation has been able to access capital on financial markets in the past, there can be no assurance this will be possible in the future. The inability of Power Corporation to access sufficient capital on acceptable terms could have a material adverse effect on Power Corporation's business, prospects, dividend paying capability and financial condition, and further enhancement opportunities or acquisitions.

Liquidity is also available through the Corporation's lines of credit with Canadian banks. The Corporation has a committed line of credit of $250 million and an uncommitted line of credit of $100 million in which advances are at the banks' sole discretion. At December 31, 2019, an amount of €25 million (C$37 million) was drawn on the line of credit.

Power Corporation's management of liquidity risk has not changed materially since December 31, 2018.

Credit Risk and Market Risk

In order to maintain an appropriate level of available liquidity, the Corporation maintains a portfolio of financial instruments which can be a combination of cash and cash equivalents, fixed income securities, other investments (consisting of equity securities, investment funds and hedge funds) and derivatives. The Corporation also holds, through its investment platforms, shares of private and publicly traded companies and other loans. Those investments bear credit and market risks as described in the following sections.

CREDIT RISK

Credit risk is the potential for financial loss to the Corporation if a counterparty in a transaction fails to meet its payment obligations. Credit risk can be related to the default of a single debt issuer, the variation of credit spreads on tradable fixed income securities and also to counterparty risk relating to derivatives products.

Power Corporation manages credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum ratings and concentration limits.

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and banks in jurisdictions where Power Corporation operates as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives can be also used mainly to mitigate exposure to foreign exchange and market risk related to certain stock-based compensation arrangements. Power Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

The Corporation's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2018.

MARKET RISK

Market risk is the risk that the market value or future cash flows of an investment will fluctuate as a result of changes in market factors. Market factors include foreign exchange risk, interest rate risk and equity risk.

Foreign Exchange Risk

Foreign exchange risk relates to the Corporation operating in different currencies and converting non-Canadian investments and earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

In its ongoing operations, the Corporation may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Corporation may from time to time enter into currency-hedging transactions with highly rated financial institutions. At December 31, 2019, approximately 44% of the $564 million of Power Corporation's cash and cash equivalents and fixed income securities were denominated in foreign currencies, consisting of $214 million in U.S. dollars, $17 million in euros and $17 million in Chinese renminbi.

Most of Power Corporation's other investments are classified as available for sale. As such, unrealized gains and losses on these investments, resulting from foreign exchange rate variations, are recorded in other comprehensive income until realized. Power Corporation also holds, through its investment platforms, investments in foreign companies which are subject to foreign exchange risk. These investment funds are diversified among the U.S. dollar, the euro, the Chinese renminbi and the Hong Kong dollar which contributes to reducing the concentration of foreign exchange risk. At December 31, 2019, the impact of a 5% strengthening of the Canadian dollar against foreign currencies would result in an unrealized loss recorded in other comprehensive income of approximately $75 million.

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate following changes in interest rates.

Power Corporation's financial instruments do not have significant exposure to interest rate risk.

Equity Risk

Equity risk is the potential loss associated with the sensitivity of the market price of a financial instrument arising from volatility in equity markets.

Most of Power Corporation's other investments are classified as available for sale. Unrealized gains and losses on these investments are recorded in other comprehensive income until realized. Other investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

Power Corporation also holds, through its investment platforms, shares of private and publicly traded companies which are subject to equity risk. At December 31, 2019, Sagard Europe, Sagard Holdings and Power Pacific collectively held $794 million in shares of publicly traded companies and $794 million in shares of private companies. The three investment platforms are diversified, investing in three distinct economic regions: Europe, North America and China. This diversification avoids a concentration in any one single economy.

At December 31, 2019, the impact of a 5% decrease in the value of other investments and Sagard Europe, Sagard Holdings and Power Pacific would have been a $70 million unrealized loss recorded in other comprehensive income.

The market price of the equity securities of Power Corporation's subsidiaries and investments may be volatile and subject to numerous factors beyond such subsidiaries' control. At times, financial markets have experienced significant price and volume fluctuations that have affected the market price of the equity securities of the subsidiaries and investments, and that are often unrelated to the operating performance, underlying asset values or prospects of such companies. Volatility in the market price of the equity securities of subsidiaries and investments may have an impact on the net asset value reported by the Corporation.

Power Corporation's management of financial instruments risk has not changed materially since December 31, 2018. For a further discussion of Power Corporation's risk management, please refer to Note 22 to the Corporation's 2019 Consolidated Financial Statements. Parts B, C and D of this MD&A describe respectively Power Financial's, Lifeco's and IGM's management of financial instruments risk.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from people, inadequate or failed internal processes and technologies, or external events. It includes the following type of risks: internal and external frauds, inadequate human resources practices, execution and processing errors, model risk, suppliers and third-party risk, business disruptions, cybersecurity, legal risk and regulatory compliance risk. Although operational risk cannot be eliminated entirely, the Corporation's risk management processes are designed to manage these risks in a thorough and diligent manner.

The Corporation manages operational risk by adopting and applying a series of corporate governance policies, procedures and practices such as human resource and compensation practice policies, a clawback policy for all officers, a code of business conduct and ethics for employees, a third party code of conduct, business continuity procedures, related party transactions review and other corporate governance guidelines. The Corporation also has established a series of controls for financial reporting and disclosure purposes, and such controls, which are tested on a regular basis, can contribute to identifying and mitigating operational risks.

Cybersecurity risk

The Corporation is exposed to risks relating to cybersecurity, in particular cyber threats, which include cyber-attacks such as, but not limited to, hacking, computer viruses, unauthorized access to confidential, proprietary or sensitive information or other breaches of network or Information Technology (IT) security. The Corporation continues to monitor and enhance its defences and procedures to prevent, detect, respond to and manage cybersecurity threats, which are constantly evolving. Consequently, the Corporation's IT defences are continuously monitored and adapted to both prevent and detect cyber-attacks, and then recover and remediate. Disruption to information systems or breaches of security could result in a negative impact on the Corporation's financial results or result in reputational damage.

Regulatory compliance risk

Regulatory compliance risk is the risk of the Corporation or its employees failing to comply with the regulatory requirements in effect where the Corporation does business, both in Canada and internationally. There are many laws, governmental rules and regulations, including financial reporting and disclosure rules that apply to the Corporation. Interpretation of these laws, rules and regulations by the Corporation, governmental agencies or the courts could result in situations of regulatory non-compliance and could adversely affect the Corporation's reputation and result in penalties, fines and sanctions or increased oversight by regulators. The Corporation, in addition to complying with these laws, rules and regulations, must also monitor them closely so that changes therein are taken into account in the management of its activities.

The Corporation ensures that the tax implications of all of its strategic decisions comply with its legal and tax reporting obligations as well as anticipate potential changes in the current legal framework to avoid any risk of non-compliance that could have adverse impacts.

REPUTATION RISK

Reputation risk is the risk that an activity undertaken by the Corporation would be judged negatively by its stakeholders or the public, whether that judgment is with or without basis, thereby impairing its image and resulting potentially in the loss of business, limited financing capacity, legal action or increased regulatory oversight. Reputation risk can arise from a number of events and is generally related to a deficiency in managing another risk. For example, non-compliance with laws and regulations as well as deficiencies in financial reporting and disclosures can have a significant reputational impact on the organization.

The Board of Directors of the Corporation has adopted a Code of Business Conduct and Ethics (the Code of Conduct which includes the Corporation's guidelines on Conflicts of Interest) as well as a Third Party Code of Conduct, that govern the conduct of the Corporation's Directors, officers, employees, advisors, consultants and suppliers. The Board of Directors of the Corporation oversees compliance with the Code of Conduct through the Corporation's General Counsel and Secretary, who monitors compliance with the Code of Conduct. Directors and employees of the Corporation are required to confirm annually, and officers of the Corporation are required to confirm quarterly, their understanding of, and agreement to comply with, the Code of Conduct.

SUSTAINABILITY RISK

Sustainability risk is the potential loss associated with the inability of the Corporation and its employees to identify and manage environmental, social and governance risks, which could adversely impact the Corporation's financial position and reputation.

Environmental risks relate to the adverse impacts that could result from global warming and climate change, waste, and resource consumption. Social risks relate to the adverse impacts on people that could result from improper practices related to human rights, labour conditions, health and safety, harassment, diversity, wages and benefits, and supplier management. Governance risks relate to adverse impacts from unethical practices, including corruption and bribery, conflicts of interest, and data privacy.

Anchored by a strong responsible management culture, the Corporation adheres to the clear guidelines set out in its Code of Business Conduct and Ethics, which applies to the Corporation's directors, officers and employees; as well as in its Third-Party Code of Conduct, which applies to advisors, consultants and suppliers. The Corporation also maintains other supporting policies, procedures and controls, including a Corporate Social Responsibility Statement, an Environmental Policy, a Global Anti-Bribery Policy, a Privacy Policy, and a Respectful Workplace Policy.

The Corporation takes a balanced approach to conducting business, providing training and capacity building for its employees to ensure sustainability risks are identified and mitigated consistent with its policies and procedures. The Board's risk management oversight includes ensuring that material environmental, social and governance risks are appropriately identified, managed and monitored.

EMERGING RISKS

An emerging risk is a risk not well understood at the current time and for which the impacts on strategy and financial results are difficult to assess or are in the process of being assessed.

Monitoring emerging risks is an important component of risk management. Power Corporation is actively monitoring emerging risks through:

- Review and analysis at the boards and committees of its operating companies around the world where local executives describe the emerging risks in their respective environments.
- The Corporation's executive officers act as the Corporation's risk management committee. They meet regularly to identify, analyze and review the Corporation's risks and to implement strategies to mitigate these risks.

COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

Financial Instruments and Other Instruments

FAIR VALUE MEASUREMENT

Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values represent management's estimates and are generally calculated using market information and at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

The Corporation's assets and liabilities recorded at fair value and those for which fair value is disclosed have been categorized based upon the following fair value hierarchy:

- Level 1 inputs utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.
- Level 2 inputs utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability.

The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input that is significant to the fair value measurement. The Corporation and its subsidiaries' assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability.

The following table presents the carrying amounts and fair value of the Corporation and its subsidiaries' assets and liabilities recorded or disclosed at fair value. The table distinguishes between assets and liabilities recorded at fair value on a recurring basis and those for which fair value is disclosed. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

At December 31		2019		2018
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	85,845	85,845	91,815	91,815
Available for sale	12,028	12,028	13,713	13,713
Mortgage and other loans				
Fair value through profit or loss	1,314	1,314	817	817
Shares				
Fair value through profit or loss	9,925	9,925	8,794	8,794
Available for sale	1,474	1,474	1,329	1,329
Investment properties	5,887	5,887	5,218	5,218
Funds held by ceding insurers	6,661	6,661	7,155	7,155
Derivative instruments	474	474	434	434
Reinsurance assets	127	127	–	–
Assets held for sale [1]	–	–	782	782
Other assets	1,490	1,490	927	927
	125,225	125,225	130,984	130,984
Assets disclosed at fair value				
Bonds				
Loans and receivables	17,372	19,344	19,722	20,619
Mortgage and other loans				
Loans and receivables	30,461	31,420	32,080	32,524
Shares				
Available for sale [2]	150	150	239	239
Funds held by ceding insurers	80	80	91	91
	48,063	50,994	52,132	53,473
Total	173,288	176,219	183,116	184,457
Liabilities				
Liabilities recorded at fair value				
Investment contract liabilities	1,656	1,656	1,711	1,711
Investment contract liabilities held for sale	–	–	27	27
Derivative instruments	1,410	1,410	1,597	1,597
Other liabilities	430	430	185	185
	3,496	3,496	3,520	3,520
Liabilities disclosed at fair value				
Obligations to securitization entities	6,914	6,997	7,370	7,437
Debentures and other debt instruments	9,938	11,451	9,977	10,823
Deposits and certificates	886	887	622	622
	17,738	19,335	17,969	18,882
Total	21,234	22,831	21,489	22,402

[1] Excludes cash and cash equivalents and loans to policyholders as the carrying value is a reasonable approximation of the fair value.

[2] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are recorded at cost.

See Note 27 to the Corporation's 2019 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement at December 31, 2019.

DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the Corporation and by senior management of its subsidiaries. The Corporation and its subsidiaries have each established operating policies, guidelines and procedures relating to the use of derivative financial instruments, which in particular focus on:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring the hedging relationships.

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the twelve-month period ended December 31, 2019. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	December 31, 2019			December 31, 2018		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Corporation	11	2	2	119	–	(4)
Power Financial	23	6	6	20	–	(2)
Lifeco	21,634	451	(930)	19,614	417	(1,145)
IGM	2,608	15	(2)	2,883	16	(13)
Other subsidiaries	288	–	(12)	131	1	1
	24,553	472	(938)	22,648	434	(1,159)
	24,564	474	(936)	22,767	434	(1,163)

During the twelve-month period ended December 31, 2019, there was an increase of $1.8 billion in the notional amount of derivatives outstanding, primarily due to an increase in forward-settling mortgage-backed security transactions ("to-be-announced securities") and regular hedging activities. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) increased to $474 million at December 31, 2019 from $434 million at December 31, 2018. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

Parts B, C and D of this MD&A provide information on the types of derivative financial instruments used by Power Financial, Lifeco and IGM, respectively.

See Note 26 to the Corporation's 2019 Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

GUARANTEES

In the normal course of their operations, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See also Part C of this MD&A and Note 32 to the Corporation's 2019 Consolidated Financial Statements.

Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation. See also Parts C and D of this MD&A and Note 31 to the Corporation's 2019 Consolidated Financial Statements.

Commitments and Contractual Obligations

	Payments due by period				
	Less than 1 year	1–5 years	More than 5 years	Undefined	Total
Power Corporation [1, 2]	44	1	655	188	888
Power Financial	16	–	254	–	270
Lifeco	2,423	1,126	4,875	–	8,424
IGM	2,116	5,489	2,134	–	9,739
Other subsidiaries and consolidation entries	723	475	657	43	1,898
Total	5,322	7,091	8,575	231	21,219
Debentures and other debt instruments [3]	1,164	1,037	7,798	–	9,999
Obligations to securitization entities	1,474	5,431	9	–	6,914
Deposits and certificates	881	4	1	–	886
Lease obligations [4]	163	473	683	–	1,319
Purchase obligations [5]	312	110	84	–	506
Pension contributions [6]	333	–	–	–	333
Contractual commitments [1, 7]	995	36	–	231	1,262
Total	5,322	7,091	8,575	231	21,219

[1] Includes $188 million of outstanding commitments from the Corporation to make future capital contributions to investment funds; the exact amount and timing of each capital contribution cannot be determined.

[2] Includes debentures of the Corporation of $650 million.

[3] Please refer to Note 15 to the Corporation's 2019 Consolidated Financial Statements for further information.

[4] Please refer to Note 16 to the Corporation's 2019 Consolidated Financial Statements for further information.

[5] Purchase obligations are commitments of Lifeco to acquire goods and services, primarily related to information services, as well as construction and turbine purchase contracts related to wind projects under construction at Potentia.

[6] Pension contributions include expected contributions to defined benefit and defined contribution pension plans as well as post-employment benefits and are subject to change, as contribution decisions are affected by many factors, including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond one year are excluded due to variability on the assumptions required to project the timing of future contributions.

[7] Represents $1,042 million of commitments by Lifeco. These contractual commitments are essentially commitments to investment transactions made in the normal course of operations, in accordance with Lifeco's policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.

Income Taxes (Non-Consolidated Basis)

The Corporation had, at December 31, 2019, non-capital losses of $423 million ($406 million for which the benefits have not been recognized) available to reduce future taxable income (including capital gains). These losses expire from 2029 to 2039.

The Corporation had, at December 31, 2019, capital losses of $158 million ($11 million for which the benefits have been recognized) that can be used indefinitely to offset capital gains.

In addition, at December 31, 2019, deductible temporary differences for which the benefits have not been recognized were $293 million.

Transactions with Related Parties

Power Corporation has a Related Party and Conduct Review Committee composed entirely of Directors who are independent of management and independent of the Corporation's controlling shareholder. The mandate of this Committee is to review proposed transactions with related parties of the Corporation, including its controlling shareholder, and to approve only those transactions that it deems appropriate and that are done at market terms and conditions.

In the normal course of business, Power Corporation and its subsidiaries enter into various transactions which include capital commitments to investment funds, performance and base management fees paid to subsidiaries of the group and loans to employees. Such transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

In the normal course of business, Great-West Life and Putnam enter into various transactions with related companies which include providing group insurance benefits and subadvisory services, respectively, to other companies within the Power Corporation group of companies. Such transactions are at market terms and conditions. These transactions are reviewed by the appropriate related party and conduct review committee.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Corporation, Power Financial, and Lifeco and its subsidiaries. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

IGM enters into transactions with subsidiaries of Lifeco. These transactions are in the normal course of operations and include (i) providing certain administrative services, (ii) distributing insurance products and (iii) the sale of residential mortgages to Great-West Life and London Life. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

In October 2017, IGM and a subsidiary of Power Corporation obtained advance tax rulings which permitted tax loss consolidation transactions whereby shares of a subsidiary that has generated tax losses may be acquired by IGM. The Corporation has recognized the benefit of the tax losses to be realized throughout this program. The program was renewed and extended to 2020.

On April 17, 2019, Power Financial participated in the Lifeco SIB and Power Corporation participated in the PFC SIB. These transactions were at market terms and conditions. Refer to the section "Equity" for more details.

On February 13, 2020, the Corporation and Power Financial completed the Reorganization. Refer to the section "Overview – 2019 Highlights" for more details.

In connection with the Reorganization, Pansolo, a corporation controlled by the Desmarais Family Residuary Trust, purchased 6 million participating preferred shares on February 12, 2020. Refer to the section "Overview – 2019 Highlights" for more details.

See Note 30 to the Corporation's 2019 Consolidated Financial Statements for additional information.

Summary of Critical Accounting Estimates and Judgments

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated or accounted for using the equity method, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the notes to the Corporation's 2019 Consolidated Financial Statements.

CONSOLIDATION

Management of the Corporation consolidates all subsidiaries and entities in which it has determined that the Corporation has control. Control is evaluated according to the ability of the Corporation to direct the relevant activities of the subsidiaries or other structured entities in order to derive variable returns. Management of the Corporation and of each of its subsidiaries exercise judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Corporation or its subsidiaries have the ability to exercise their power to affect variable returns.

JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without having control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Management of the Corporation and of each of its subsidiaries exercise judgment in determining whether joint control or significant influence exists.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Measurement

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiaries are responsible for determining the amount of the liabilities in order to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality and morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

Additional details regarding these estimates can be found in Note 13 to the Corporation's 2019 Consolidated Financial Statements. See also Part C of this MD&A.

FAIR VALUE MEASUREMENT

The carrying values of financial assets reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation and its subsidiaries rely upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance contract liabilities are largely offset by corresponding changes in the fair value of these liabilities, except when the bond has been deemed impaired.

The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following is a description of the methodologies used to determine fair value.

a) *Bonds and mortgage and other loans at fair value through profit or loss and available for sale*

Fair values of bonds and mortgage and other loans recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds and mortgage and other loans at fair value. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate the fair value of bonds and mortgage and other loans not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodologies, discounted cash flow analyses and/or internal valuation models. These methodologies consider such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as yield curves, credit curves, prepayment rates and other relevant factors. For bonds and mortgage and other loans that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

b) *Shares at fair value through profit or loss and available for sale*

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movements relative to the market and utilization of information provided by the underlying investment manager. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure shares at fair value.

c) *Equity-release mortgages at fair value through profit or loss*

There are no market observable prices for equity-release mortgages; an internal valuation model is used which is based on discounting expected future cash flows and considering the embedded no-negative-equity guarantee. Inputs to the model include market observable inputs such as benchmark yields and risk-adjusted spreads. Non-market observable inputs include property growth and volatility rates, expected rates of voluntary redemptions, death, moving to long-term care and interest cessation assumptions and the value of the no-negative-equity guarantee.

d) *Bonds and mortgage and other loans classified as loans and receivables*

The fair values disclosed for bonds and mortgage and other loans, classified as loans and receivables, are determined by discounting expected future cash flows using current market rates for similar instruments. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

e) *Investment properties*

Fair values for investment properties are determined using independent qualified appraisal services and include adjustments by Lifeco management for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment properties requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

IMPAIRMENT OF INVESTMENTS

Investments are reviewed on an individual basis at the end of each reporting period to determine whether there is any objective evidence of impairment. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired bonds and mortgage and other loans classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. Where available-for-sale bonds are determined to be impaired, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, interest is no longer accrued on impaired bonds and mortgage and other loans and previous interest accruals are reversed in net investment income.

Impairment losses on available-for-sale shares are recorded in net investment income if the loss is significant or prolonged. Subsequent losses are recorded directly in net investment income.

GOODWILL AND INDEFINITE LIFE INTANGIBLES IMPAIRMENT TESTING

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

Goodwill and indefinite life intangible assets have been allocated to cash generating units or to groups of cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of the CGU to the recoverable amount of the CGU to which the goodwill and indefinite life intangible assets have been allocated.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of disposal or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors, unfunded supplementary employee retirement plans (SERP) for certain employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. Expenses for defined benefit plans are actuarially determined using the projected unit credit method prorated on service based upon management of the Corporation and of its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The Corporation and its subsidiaries' accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

- The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined by reference to market yields on high-quality corporate bonds.
- If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.
- Net interest costs, current service costs, past service costs and curtailment and settlement gains or losses are included in operating and administrative expenses.
- Remeasurements represent actuarial gains and losses, and the actual return on plan assets, less interest calculated at the discount rate and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not subsequently reclassified to net earnings.
- The accrued benefit asset (liability) represents the plan surplus (deficit).
- Contributions to the defined contribution plans are expensed as incurred.

INCOME TAXES

Current income tax

Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current tax liabilities are offset if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Deferred income tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income and on unused tax attributes, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax attributes can be utilized.

Recognition of deferred tax assets is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets. The Corporation and its subsidiaries' financial planning process provides a significant basis for the measurement of deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, jointly controlled corporations and associates, except where the group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Changes in Accounting Policies

There were no changes to the Corporation's accounting policies from those reported at December 31, 2018, except as described below.

ADOPTION OF IFRS 16 – *LEASES* (IFRS 16)

Effective January 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, *Leases* (IAS 17) and related interpretations. The standard prescribes new guidance for identifying a lease as well as the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires a lessee to recognize a right-of-use asset representing its right to use the leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. The distinction between operating and financing leases no longer applies, however an optional exemption is available for short-term and low-value leases.

Impact of transition to IFRS 16

The Corporation has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Corporation elected to measure right-of-use assets on a lease-by-lease basis at either i) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized on the balance sheets immediately before the date of initial application; or ii) at its carrying amount, as if IFRS 16 had been applied since the commencement date but discounted using the Corporation's incremental borrowing rate at January 1, 2019. When measuring lease liabilities, the Corporation and its subsidiaries discounted lease payments using their respective incremental borrowing rates at January 1, 2019. The weighted-average incremental borrowing rate was 4.29% at January 1, 2019.

On transition, the Corporation and its subsidiaries elected to apply practical expedients including: i) to not recognize right-of-use assets and lease liabilities for leases for which the remaining lease terms end within twelve months of the date of transition; and ii) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

Impact on the balance sheet as at January 1, 2019:

	December 31, 2018 (as previously reported)	Impact of IFRS 16	January 1, 2019 (restated)
Assets			
Investment properties	5,218	29	5,247
Owner-occupied properties and capital assets	1,867	854	2,721
Other assets	9,390	(40)	9,350
		843	
Liabilities and shareholders' equity			
Other liabilities [1]	11,544	851	12,395
Deferred tax liabilities	1,595	(2)	1,593
Retained earnings	11,726	(2)	11,724
Non-controlling interests	22,928	(4)	22,924
		843	

[1] Accrued lease payments of $100 million within other liabilities on the balance sheet at December 31, 2018 were reclassified to decrease right-of-use assets.

The application of IFRS 16 did not have a material impact on the statement of earnings or the statement of cash flows for the year ended December 31, 2019, except for the classification of lease payments as financing activities instead of operating activities. The adoption of IFRS 16 did not have an impact on net cash flows.

ADOPTION OF IFRIC 23 – *UNCERTAINTY OVER INCOME TAX TREATMENTS* (IFRIC 23)

Effective January 1, 2019, the Corporation adopted IFRIC 23 which clarifies the application of the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under IFRIC 23, a provision for tax uncertainties which meets the probable threshold for recognition is measured based on the amount most likely to occur. The provision for tax uncertainties is classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. The application of the interpretation of the standard resulted in a decrease of $109 million to Lifeco's retained earnings. The Corporation's share of this impact is $50 million.

Future Accounting Changes

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

New standard	Summary of future changes
IFRS 17 – Insurance Contracts (IFRS 17)	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard by one year to January 1, 2022. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period on the exposure draft, on March 17, 2020, the IASB approved the deferral of the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. In addition, the IASB extended to January 1, 2023 the exemption for insurers to apply the financial instruments standard, IFRS 9 - *Financial Instruments*, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB has also confirmed certain amendments proposed in the exposure draft – namely the amendment on the expected recovery of insurance acquisition cash flows – and has also agreed to extend the scope of the amendment related to the recovery of losses on reinsurance contracts to apply to all reinsurance held contracts. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework and project plan, for which substantial resources are being dedicated. Lifeco has assembled a project team that is working on the implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. These groups are also monitoring developments from the IASB, and various industry groups that Lifeco has representation on. Lifeco has made progress in implementing its project plan, with key policy decisions well-advanced as well as progression on the implementation of the technology solution. Lifeco continues to evaluate the readiness of technology vendors and their ability to deliver for IFRS 17 implementation. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows: the current estimates of amounts that a company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin: the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the Canadian Asset Liability Method, where the discount rate was based on the yield curves of the assets supporting those liabilities. The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. In 2019, Lifeco recognized approximately $108 million of new business losses (losses of approximately $195 million in 2018). IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, Lifeco expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how the financial performance is reported in the statements of earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. Lifeco is also actively monitoring potential impacts on regulatory capital and its associated ratios and disclosures. Lifeco continues to assess all these impacts through its global implementation plan.

New standard	Summary of future changes
Current implication of IFRS 9 – Financial Instruments (IFRS 9)	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The effective date for IFRS 9 has been deferred to align with the effective date for IFRS 17 of January 1, 2023. The standard provides changes to financial instruments accounting for the following: ▪ Classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; ▪ Impairment based on an expected loss model; and ▪ Hedge accounting that incorporates the risk management practices of an entity. In September 2016, the IASB issued an amendment to IFRS 4, *Insurance Contracts* (IFRS 4). The amendment "Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: ▪ *Deferral Approach:* provides the option to defer implementation of IFRS 9 until the proposed effective date of the new insurance contract standard; or ▪ *Overlay Approach:* provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Corporation qualifies for the amendment and is applying the deferral approach to allow the adoption of both IFRS 9 and IFRS 17, simultaneously. The disclosure for the measurement and classification of the Corporation's portfolio investments provides most of the information required by IFRS 9. The Corporation and Lifeco continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. Pargesa (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted although not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to Pargesa's results.
IFRS 3 – Business Combinations (IFRS 3)	In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. The amendments will be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.
IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)	In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments are to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2020.
IFRS 9 – Financial Instruments (IFRS 9) IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39) and IFRS 7 – Financial Instruments: Disclosures (IFRS 7)	In September 2019, the IASB issued amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective for periods beginning on or after January 1, 2020. Although adoption of these amendments will not have a significant impact on the Corporation's consolidated financial statements, additional disclosures will be required.

Disclosure Controls and Procedures

Based on their evaluations at December 31, 2019, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective at December 31, 2019.

Internal Control over Financial Reporting

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with IFRS. The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's internal control over financial reporting at December 31, 2019, based on the Internal Control – Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal control over financial reporting was effective at December 31, 2019.

There have been no changes in the Corporation's internal control over financial reporting during the three-month period ended December 31, 2019 which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Selected Annual Information

For the years ended December 31	2019	2018	2017
Total revenues	48,841	48,098	51,362
Assets under management [in billions]	941	860	854
Assets under administration [in billions]	1,823	1,571	1,527
Net earnings (attributable to participating shareholders)	1,108	1,287	1,286
per share – basic	2.53	2.77	2.77
per share – diluted	2.53	2.76	2.76
Adjusted net earnings (attributable to participating shareholders) [1]	1,313	1,438	1,560
per share – basic	3.00	3.09	3.36
Consolidated assets	477,250	452,303	445,521
Total financial liabilities	26,057	26,056	24,946
Debentures and other debt instruments	9,938	9,977	9,511
Shareholders' equity	14,174	15,118	14,615
Book value per participating share	30.98	30.38	29.40
Number of participating shares outstanding [millions]			
Participating preferred shares	48.9	48.9	48.9
Subordinate voting shares	377.6	417.1	415.4
Dividends per share [declared]			
Participating shares [2]	2.0020	1.5045	1.4105
First preferred shares			
1986 Series [3]	1.3824	1.2390	0.9994
Series A	1.4000	1.4000	1.4000
Series B	1.3375	1.3375	1.3375
Series C	1.4500	1.4500	1.4500
Series D	1.2500	1.2500	1.2500
Series G	1.4000	1.4000	1.4000

[1] Adjusted net earnings and adjusted net earnings per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Non-IFRS Financial Measures and Presentation" section in this MD&A.

[2] Includes the dividend declared by the Corporation on December 12, 2019, as part of the Reorganization.

[3] The 1986 Series First Preferred Shares are entitled to a quarterly cumulative dividend at a floating rate equal to one quarter of 70% of the average prime rates quoted by two major Canadian chartered banks.

Summary of Quarterly Results

				2019				2018
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues [1]	11,729	15,422	3,824	17,866	12,661	12,972	11,609	10,856
Net earnings (attributable to participating shareholders)	179	359	278	292	229	186	347	525
per share – basic [2]	0.42	0.84	0.64	0.63	0.49	0.40	0.75	1.13
per share – diluted [2]	0.42	0.84	0.64	0.63	0.49	0.40	0.74	1.13
Adjusted net earnings (attributable to participating shareholders) [3]	317	332	372	292	283	283	347	525
per share – basic [2, 3]	0.74	0.78	0.86	0.63	0.60	0.61	0.75	1.13
Other items [3, 4]	(138)	27	(94)	–	(54)	(97)	–	–
per share – basic [3]	(0.32)	0.06	(0.22)	–	(0.11)	(0.21)	–	–

[1] The decrease in revenues in the second quarter of 2019 is due to the impact of Lifeco's sale, via indemnity reinsurance, of its U.S. individual life insurance and annuity business to Protective Life.

[2] In the second quarter of 2019, pursuant to the PCC SIB, Power Corporation repurchased approximately 9.8% of its issued and outstanding subordinate voting shares.

[3] Adjusted net earnings and adjusted net earnings per share attributable to participating shareholders, and other items and other items per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Non-IFRS Financial Measures and Presentation" section in this MD&A.

[4] The Corporation's share of Power Financial's Other items and Other items of the Corporation are as follows:

				2019				2018
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Power Financial								
Lifeco	(97)	–	(86)	–	–	(25)	–	–
IGM	(4)	–	(3)	–	–	(11)	–	–
Pargesa	(15)	(4)	(5)	–	12	–	–	–
Corporate operations	(6)	–	–	–	–	–	–	–
	(122)	(4)	(94)	–	12	(36)	–	–
Investment platforms and other	(16)	–	–	–	(66)	–	–	–
Corporate operations								
Operating and other expenses	–	31	–	–	–	(61)	–	–
	(138)	27	(94)	–	(54)	(97)	–	–

Consolidated Balance Sheets

[in millions of Canadian dollars]	December 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents [Note 5]	6,805	6,441
Investments [Note 6]		
Bonds	115,245	125,250
Mortgage and other loans	31,775	32,897
Shares	11,549	10,362
Investment properties	5,887	5,218
Loans to policyholders	8,601	8,929
	173,057	182,656
Assets held for sale [Note 4]	–	897
Funds held by ceding insurers [Note 7]	8,714	9,251
Reinsurance assets [Note 13]	20,707	6,126
Derivative financial instruments [Note 26]	474	434
Investments in jointly controlled corporations and associates [Note 8]	5,893	5,087
Owner-occupied properties and capital assets [Note 9]	3,063	1,867
Other assets [Note 10]	10,546	9,390
Deferred tax assets [Note 17]	802	1,098
Intangible assets [Note 11]	5,843	5,787
Goodwill [Note 11]	10,324	10,423
Investments on account of segregated fund policyholders [Note 12]	231,022	209,527
Investments on account of segregated fund policyholders held for sale [Note 4]	–	3,319
Total assets	477,250	452,303
Liabilities		
Insurance contract liabilities [Note 13]	174,521	166,720
Investment contract liabilities [Note 13]	1,656	1,711
Liabilities held for sale [Note 4]	–	897
Obligations to securitization entities [Note 14]	6,914	7,370
Debentures and other debt instruments [Note 15]	9,938	9,977
Derivative financial instruments [Note 26]	1,410	1,597
Other liabilities [Note 16]	13,707	11,544
Deferred tax liabilities [Note 17]	1,497	1,595
Insurance and investment contracts on account of segregated fund policyholders [Note 12]	231,022	209,527
Insurance and investment contracts on account of segregated fund policyholders held for sale [Note 4]	–	3,319
Total liabilities	440,665	414,257
Equity		
Stated capital [Note 18]		
Non-participating shares	960	962
Participating shares	726	766
Retained earnings	10,780	11,726
Reserves	1,708	1,664
Total shareholders' equity	14,174	15,118
Non-controlling interests [Note 20]	22,411	22,928
Total equity	36,585	38,046
Total liabilities and equity	477,250	452,303

Approved by the Board of Directors

Signed,
J. David A. Jackson
Director

Signed,
R. Jeffrey Orr
Director

Consolidated Statements of Earnings

For the years ended December 31 [in millions of Canadian dollars, except per share amounts]	2019	2018
Revenues		
Premium income		
Gross premiums written [Note 13]	43,245	39,963
Ceded premiums	(18,756)	(4,523)
Total net premiums	24,489	35,440
Net investment income [Note 6]		
Regular net investment income	6,455	6,673
Change in fair value through profit or loss	6,987	(3,604)
Net investment income	13,442	3,069
Fee income	10,081	8,776
Other revenues	829	813
Total revenues	48,841	48,098
Expenses		
Policyholder benefits		
Gross [Note 13]	37,769	32,357
Ceded	(2,916)	(2,445)
Total net policyholder benefits	34,853	29,912
Changes in insurance and investment contract liabilities		
Gross	10,155	441
Ceded	(13,479)	61
Total net changes in insurance and investment contract liabilities	(3,324)	502
Policyholder dividends and experience refunds	1,562	1,654
Total paid or credited to policyholders	33,091	32,068
Commissions	3,480	3,512
Operating and administrative expenses [Note 23]	8,341	8,175
Financing charges [Note 24]	544	462
Total expenses	45,456	44,217
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,385	3,881
Share of earnings of investments in jointly controlled corporations and associates [Note 8]	212	164
Earnings before income taxes	3,597	4,045
Income taxes [Note 17]	554	578
Net earnings	3,043	3,467
Attributable to		
Non-controlling interests [Note 20]	1,883	2,128
Non-participating shareholders	52	52
Participating shareholders	1,108	1,287
	3,043	3,467
Earnings per participating share [Note 29]		
Net earnings attributable to participating shareholders		
– Basic	2.53	2.77
– Diluted	2.53	2.76

Consolidated Statements of Comprehensive Income

For the years ended December 31 [in millions of Canadian dollars]	2019	2018
Net earnings	3,043	3,467
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings		
Net unrealized gains (losses) on available-for-sale investments		
Unrealized gains (losses)	498	(135)
Income tax (expense) benefit	(56)	29
Realized (gains) losses transferred to net earnings	(220)	(188)
Income tax expense (benefit)	10	(4)
	232	(298)
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	2	13
Income tax (expense) benefit	1	(2)
Realized (gains) losses transferred to net earnings	–	(69)
Income tax expense (benefit)	–	17
	3	(41)
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation	(628)	845
Income tax (expense) benefit	3	–
Realized (gains) losses on translation transferred to net earnings	(13)	(11)
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	100	(50)
Income tax (expense) benefit	(14)	6
	(552)	790
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	448	21
Income tax (expense) benefit	9	(5)
	457	16
Total – items that may be reclassified	140	467
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on defined benefit plans [Note 25]	(278)	17
Income tax (expense) benefit	64	1
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	(6)	2
Total – items that will not be reclassified	(220)	20
Other comprehensive income (loss)	(80)	487
Comprehensive income	2,963	3,954
Attributable to		
Non-controlling interests	1,754	2,467
Non-participating shareholders	52	52
Participating shareholders	1,157	1,435
	2,963	3,954

Consolidated Statements of Changes in Equity

For the year ended December 31, 2019 [in millions of Canadian dollars]	Stated capital			Reserves				
	Non-participating shares	Participating shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 28]	Total	Non-controlling interests	Total equity
Balance, beginning of year								
As previously reported	962	766	11,726	184	1,480	1,664	22,928	38,046
Change in accounting policies [Note 2]								
Impact of IFRS 16	–	–	(2)	–	–	–	(4)	(6)
Impact of IFRIC 23	–	–	(50)	–	–	–	(59)	(109)
Restated balance, beginning of year	962	766	11,674	184	1,480	1,664	22,865	37,931
Net earnings	–	–	1,160	–	–	–	1,883	3,043
Other comprehensive income (loss)	–	–	–	–	49	49	(129)	(80)
Comprehensive income	–	–	1,160	–	49	49	1,754	2,963
Substantial issuer bid on subordinate voting shares [Note 18]	–	(73)	(1,277)	–	–	–	–	(1,350)
Dividends to shareholders								
Non-participating	–	–	(52)	–	–	–	–	(52)
Participating	–	–	(868)	–	–	–	–	(868)
Dividends to non-controlling interests	–	–	–	–	–	–	(1,348)	(1,348)
Share-based compensation [Note 19]	–	–	–	32	–	32	29	61
Stock options exercised	–	33	–	(20)	–	(20)	17	30
Repurchase of shares of the Corporation for cancellation	(2)	–	–	–	–	–	–	(2)
Effects of changes in capital and ownership of subsidiaries, and other [1]	–	–	143	16	(33)	(17)	(906)	(780)
Balance, end of year	960	726	10,780	212	1,496	1,708	22,411	36,585

[1] Effects of changes in capital and ownership of subsidiaries relate to the impact of the purchase for cancellation of common shares by Lifeco and Power Financial under their substantial issuer bids and the issuance and the repurchase of common and preferred shares by subsidiaries (Note 20).

For the year ended December 31, 2018 [in millions of Canadian dollars]	Stated capital			Reserves				
	Non-participating shares	Participating shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 28]	Total	Non-controlling interests	Total equity
Balance, beginning of year	965	717	11,191	185	1,321	1,506	21,880	36,259
Net earnings	–	–	1,339	–	–	–	2,128	3,467
Other comprehensive income	–	–	–	–	148	148	339	487
Comprehensive income	–	–	1,339	–	148	148	2,467	3,954
Dividends to shareholders								
Non-participating	–	–	(52)	–	–	–	–	(52)
Participating	–	–	(700)	–	–	–	–	(700)
Dividends to non-controlling interests	–	–	–	–	–	–	(1,329)	(1,329)
Share-based compensation [Note 19]	–	–	–	26	–	26	24	50
Stock options exercised	–	49	–	(27)	–	(27)	21	43
Repurchase of shares of the Corporation for cancellation	(3)	–	–	–	–	–	–	(3)
Effects of changes in capital and ownership of subsidiaries, and other	–	–	(52)	–	11	11	(135)	(176)
Balance, end of year	962	766	11,726	184	1,480	1,664	22,928	38,046

Consolidated Statements of Cash Flows

For the years ended December 31 [in millions of Canadian dollars]	2019	2018
Operating activities		
Earnings before income taxes	3,597	4,045
Income tax paid, net of refunds	(477)	(612)
Adjusting items		
Change in insurance and investment contract liabilities	10,412	(379)
Change in funds held by ceding insurers	570	663
Change in reinsurance assets	(900)	51
Change in fair value through profit or loss	(6,987)	3,604
Other	406	(256)
	6,621	7,116
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	(1,349)	(1,323)
Non-participating shares	(52)	(52)
Participating shares	(695)	(700)
	(2,096)	(2,075)
Issue of subordinate voting shares by the Corporation [Note 18]	30	43
Issue of common shares and limited-life fund units by subsidiaries	336	74
Repurchase of subordinate voting shares for cancellation under substantial issuer bid [Note 18]	(1,350)	–
Repurchase of non-participating shares by the Corporation	(2)	(3)
Repurchase of common shares by subsidiaries	(684)	(74)
Redemption of preferred shares by subsidiaries	(150)	–
Issue of debentures and senior notes [Note 15]	250	1,962
Redemption of debentures [Note 15]	(232)	(1,871)
Increase in other debt instruments [Note 15]	146	167
Decrease in other debt instruments [Note 15]	(121)	(38)
Repayment of lease liabilities [Note 16]	(99)	–
Increase in obligations to securitization entities	1,456	1,772
Repayments of obligations to securitization entities and other	(2,115)	(2,111)
	(4,631)	(2,154)
Investment activities		
Bond sales and maturities	25,860	25,577
Mortgage and other loan repayments	4,778	4,704
Sale of shares	3,959	4,121
Sale of investment properties	5	63
Change in loans to policyholders	16	(208)
Proceeds from assets held for sale [Note 4]	–	169
Business acquisitions, net of disposal of business (net of related cash and cash equivalents) [Note 3]	(49)	(334)
Acquisition of assets, net of cash and cash equivalents [Note 3]	(123)	–
Cash and cash equivalents related to transfer of business [Note 4]	(4)	–
Cash and cash equivalents classified as held for sale [Note 4]	–	(112)
Investment in bonds	(25,621)	(27,031)
Investment in mortgage and other loans	(5,691)	(6,121)
Investment in shares	(3,610)	(5,080)
Investments in jointly controlled corporations and associates [Note 8]	(130)	(76)
Proceeds from investments in jointly controlled corporations and associates	–	199
Investment in investment properties and other	(868)	(479)
	(1,478)	(4,608)
Effect of changes in exchange rates on cash and cash equivalents	(148)	184
Increase in cash and cash equivalents	364	538
Cash and cash equivalents, beginning of year	6,441	5,903
Cash and cash equivalents, end of year	6,805	6,441
Net cash from operating activities includes		
Interest and dividends received	5,765	5,932
Interest paid	686	681

Notes to the Consolidated Financial Statements

(ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.)

Note 1	Corporate Information	82
Note 2	Basis of Presentation and Summary of Significant Accounting Policies	83
Note 3	Business Acquisitions and Other Transactions	101
Note 4	Assets Held for Sale	103
Note 5	Cash and Cash Equivalents	103
Note 6	Investments	104
Note 7	Funds Held by Ceding Insurers	106
Note 8	Investments in Jointly Controlled Corporations and Associates	107
Note 9	Owner-Occupied Properties and Capital Assets	109
Note 10	Other Assets	110
Note 11	Goodwill and Intangible Assets	111
Note 12	Segregated Funds and Other Structured Entities	114
Note 13	Insurance and Investment Contract Liabilities	118
Note 14	Obligations to Securitization Entities	124
Note 15	Debentures and Other Debt Instruments	125
Note 16	Other Liabilities	128
Note 17	Income Taxes	129
Note 18	Stated Capital	131
Note 19	Share-Based Compensation	133
Note 20	Non-Controlling Interests	135
Note 21	Capital Management	136
Note 22	Risk Management	138
Note 23	Operating and Administrative Expenses	152
Note 24	Financing Charges	152
Note 25	Pension Plans and Other Post-Employment Benefits	153
Note 26	Derivative Financial Instruments	158
Note 27	Fair Value Measurement	162
Note 28	Other Comprehensive Income	167
Note 29	Earnings Per Share	167
Note 30	Related Parties	168
Note 31	Contingent Liabilities	170
Note 32	Commitments and Guarantees	171
Note 33	Subsequent Events	172
Note 34	Segmented Information	174

The following abbreviations are used in these Consolidated Financial Statements:

CALM	Canadian Asset Liability Method
Canada Life	The Canada Life Assurance Company
China AMC	China Asset Management Co., Ltd.
Great-West Life	The Great-West Life Assurance Company
Great-West Life & Annuity	Great-West Life & Annuity Insurance Company
IFRS	International Financial Reporting Standards
IGM or IGM Financial	IGM Financial Inc.
IG Wealth Management	Investors Group Inc.
IntegraMed	IntegraMed America, Inc.
Irish Life	Irish Life Group Limited
Lifeco	Great-West Lifeco Inc.
London Life	London Life Insurance Company
Lumenpulse	Lumenpulse Group Inc.
Mackenzie or Mackenzie Investments	Mackenzie Financial Corporation
Pargesa	Pargesa Holding SA
Parjointco	Parjointco N.V.
Personal Capital	Personal Capital Corporation
Portag3	Portag3 Ventures LP
Portag3 II	Portag3 Ventures II LP
Power Corporation or the Corporation	Power Corporation of Canada
Power Energy	Power Energy Corporation
Power Financial	Power Financial Corporation
Putnam	Putnam Investments, LLC
Square Victoria Communications Group	Square Victoria Communications Group Inc.
Wealthsimple	Wealthsimple Financial Corp.

NOTE 1 Corporate Information

Power Corporation of Canada is a publicly listed company (TSX: POW; POW.PR.E) incorporated and domiciled in Canada and located at 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Corporation is an international management and holding company that focuses on financial services in North America, Europe and Asia. Its core holdings are leading insurance, retirement, wealth management and investment businesses, including a portfolio of alternative asset investment platforms.

The Consolidated Financial Statements (financial statements) of Power Corporation as at and for the year ended December 31, 2019 were approved by its Board of Directors on March 18, 2020.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The financial statements of Power Corporation as at December 31, 2019 have been prepared in accordance with International Financial Reporting Standards.

The financial statements include the accounts of Power Corporation and its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances, and certain consolidation adjustments.

SUBSIDIARIES

Subsidiaries are entities the Corporation controls when: (i) the Corporation has power over the entity; (ii) it is exposed or has rights to variable returns from its involvement; and (iii) it has the ability to affect those returns through its use of power over the entity. Subsidiaries of the Corporation are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date such control ceases. The Corporation reassesses whether or not it controls an entity if facts and circumstances indicate there are changes to one or more of the elements of control listed above.

The principal operating subsidiaries of the Corporation are:

		% equity interest	
Corporations	Primary business operation	December 31, 2019	December 31, 2018
Power Financial Corporation	Financial services holding company	64.1	65.5
Great-West Lifeco Inc. [1][2]	Financial services holding company with interests in insurance and wealth management companies	70.9	71.8
IGM Financial Inc. [3][4]	Wealth and asset management	66.0	65.2
Portag3 Ventures LP [5]	Backing of innovative financial services companies	100.0	100.0
Portag3 Ventures II LP [6]	Focusing on early stage investments in the global technology sector	27.9	47.0
Wealthsimple Financial Corp. [7]	Technology-driven investment manager	84.9	81.7
Power Energy Corporation	Holding company with interests in sustainable and renewable energy	100.0	100.0

[1] Power Financial holds a 66.9% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco (67.8% and 4.0%, respectively, at December 31, 2018).

[2] Lifeco's principal operating subsidiary companies are Great-West Life, Great-West Life & Annuity, London Life, Canada Life, Irish Life and Putnam. As of January 1, 2020, Great-West Life, London Life and Canada Life amalgamated into a single company: Canada Life.

[3] Power Financial holds a 62.1% equity interest and Great-West Life holds a 3.9% equity interest in IGM Financial (61.4% and 3.8%, respectively, at December 31, 2018).

[4] IGM's principal operating subsidiary companies are IG Wealth Management and Mackenzie.

[5] Power Financial holds a 63.0% equity interest and Lifeco and IGM Financial each hold an equity interest of 18.5% in Portag3 (same at December 31, 2018).

[6] Power Financial, Lifeco and IGM Financial each hold an equal equity interest of 7.7% (15.7% at December 31, 2018) and Sagard Holdings ULC, a wholly owned subsidiary of the Corporation, holds a 4.7% equity interest (nil at December 31, 2018) in Portag3 II.

[7] Power Financial, Portag3 and IGM Financial hold an equity interest of 21.2%, 16.8% and 46.9%, respectively, in Wealthsimple (16.0%, 21.9% and 43.8%, respectively, at December 31, 2018).

On April 17, 2019, Lifeco completed a substantial issuer bid (the Lifeco SIB) and purchased for cancellation 59,700,974 of its common shares at a purchase price of $33.50 per common share. Power Financial participated in the Lifeco SIB by tendering its Lifeco common shares on a proportionate basis and on a non-proportionate basis. IGM Financial also participated on a proportionate basis in the Lifeco SIB.

On April 17, 2019, Power Financial completed a substantial issuer bid (the PFC SIB) and purchased for cancellation 49,999,973 of its common shares at a purchase price of $33.00 per common share. The Corporation participated in the PFC SIB by tendering its Power Financial common shares on a proportionate basis and a non-proportionate basis.

The decrease in ownership in Lifeco and Power Financial resulted in dilution gains of $71 million and $66 million, respectively, recorded in retained earnings and other comprehensive income reserve with a corresponding decrease in non-controlling interests in the statements of changes in equity.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

The financial statements of Power Corporation include, on a consolidated basis, the results of Power Financial, a Canadian reporting issuer in all of the provinces and territories of Canada, and Lifeco and IGM Financial, which are public companies. The amounts shown on the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are mainly derived from the publicly disclosed consolidated financial statements of Power Financial, Lifeco and IGM Financial, all as at and for the year ended December 31, 2019. Certain notes to Power Corporation's financial statements are derived from the notes to the financial statements of Power Financial.

JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without having control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Under the equity method, the Corporation recognizes its share of net earnings (losses), other comprehensive income (loss), the changes in equity of the jointly controlled corporations and associates, and dividends received.

The principal jointly controlled corporations and associates of the Corporation are:

			% equity interest	
Corporations	Classification	Primary business operation	2019	2018
Parjointco N.V. [1][2]	Joint control	Holding company	50.0	50.0
China Asset Management Co., Ltd. [3]	Associate	Asset management company	27.8	27.8

[1] Held by Power Financial.

[2] Parjointco N.V. holds a 55.5% (same at December 31, 2018) equity interest in Pargesa Holding SA.

[3] Power Corporation and IGM Financial each hold an equity interest of 13.9% in China AMC (same at December 31, 2018).

CHANGE IN ACCOUNTING POLICIES

IFRS 16 – LEASES (IFRS 16)

Effective January 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, *Leases* (IAS 17) and related interpretations. The standard prescribes new guidance for identifying a lease as well as the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires a lessee to recognize a right-of-use asset representing its right to use the leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. The distinction between operating and financing leases no longer applies, however an optional exemption is available for short-term and low-value leases.

Impact of transition to IFRS 16

The Corporation has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Corporation elected to measure right-of-use assets on a lease-by-lease basis at either i) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized on the balance sheets immediately before the date of initial application; or ii) at its carrying amount as if IFRS 16 had been applied since the commencement date but discounted using the Corporation's incremental borrowing rate at January 1, 2019. When measuring lease liabilities, the Corporation and its subsidiaries discounted lease payments using their respective incremental borrowing rates at January 1, 2019. The weighted-average incremental borrowing rate was 4.29% at January 1, 2019.

On transition, the Corporation and its subsidiaries elected to apply practical expedients including: i) to not recognize right-of-use assets and lease liabilities for leases for which the remaining lease terms end within twelve months of the date of transition; and ii) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Impact on the balance sheet as at January 1, 2019:

	December 31, 2018 (as previously reported)	Impact of IFRS 16	January 1, 2019 (restated)
Assets			
Investment properties	5,218	29	5,247
Owner-occupied properties and capital assets	1,867	854	2,721
Other assets	9,390	(40)	9,350
		843	
Liabilities and shareholders' equity			
Other liabilities [1]	11,544	851	12,395
Deferred tax liabilities	1,595	(2)	1,593
Retained earnings	11,726	(2)	11,724
Non-controlling interests	22,928	(4)	22,924
		843	

[1] Accrued lease payments of $100 million within other liabilities on the balance sheet at December 31, 2018 were reclassified to decrease right-of-use assets.

The following table reconciles the Corporation and its subsidiaries' operating lease obligations at December 31, 2018, as previously disclosed in the Corporation's consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	1,359
Discounting using the incremental borrowing rate at January 1, 2019	(227)
Non-lease components included in operating lease commitments	(137)
Leases not yet commenced at January 1, 2019 included in operating lease commitments	(59)
Short-term leases included in operating lease commitments	(6)
Low-value leases included in operating lease commitments	(6)
Renewal options not included in operating lease commitments	27
Lease liabilities recognized at January 1, 2019	951

The application of IFRS 16 did not have a material impact on the statement of earnings or the statement of cash flows for the year ended December 31, 2019, except for the classification of lease payments as financing activities instead of operating activities. The adoption of IFRS 16 did not have an impact on net cash flows.

IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS (IFRIC 23)

Effective January 1, 2019, the Corporation adopted IFRIC 23 which clarifies the application of the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under IFRIC 23, a provision for tax uncertainties which meets the probable threshold for recognition is measured based on the amount most likely to occur. The provision for tax uncertainties is classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. The application of the interpretation of the standard resulted in a decrease of $109 million to Lifeco's retained earnings. The Corporation's share of this impact is $50 million.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the preparation of the financial statements, management of the Corporation and management of its subsidiaries are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation, uncertainty and areas where significant judgments have been made by the management of the Corporation and the management of its subsidiaries are listed below and are discussed throughout the notes in these financial statements, including:

Item or balance affected by judgments or estimates	Applied by	Key judgments or estimates	Corresponding note(s)
Evaluation of control	Management of the Corporation and of its subsidiaries	Determining if the Corporation has the ability to direct the relevant activities of the subsidiaries or other structured entities in order to derive variable returns. Judgment is exercised in evaluating the variable returns and in determining the extent to which the Corporation has the ability to exercise power to affect variable returns.	n/a
Evaluation of significant influence and joint control	Management of the Corporation and of its subsidiaries	Determining if the Corporation exercises significant influence over the entity's operating and financing policies, or if unanimous consent is required for decisions relating to relevant activities.	n/a
Evaluation of disposal group	Management of Lifeco	Determining the assets and liabilities to be included in the disposal group requires judgment and the fair value of the disposal group requires estimation.	4
Classification of insurance and reinsurance contracts	Management of Lifeco	Determining whether arrangements should be accounted for as insurance, investment or service contracts.	13
Valuation of insurance and certain investment contract liabilities in accordance with CALM	Management of Lifeco	Determining the actuarial assumptions, including interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders.	13
Provision for future credit losses within certain insurance contract liabilities	Management of Lifeco	The provision for future credit losses within insurance contract liabilities is based on investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available. Judgment is required when setting credit ratings for instruments that do not have a third-party rating.	13
Fair value of financial instruments	Management of the Corporation and of its subsidiaries	Determining fair value inputs to establish the fair value of financial instruments, particularly those items categorized within Level 3 of the fair value hierarchy.	27
Fair value of equity-release mortgages	Management of Lifeco	Internal valuation models are used to determine the fair value of equity-release mortgages. These valuations are adjusted by applying management judgments and estimates for material changes in projected asset cash flows and discount rates.	6
Fair value of investment properties	Management of Lifeco	Independent qualified appraisal services are used to determine the fair value of investment properties, which use assumptions that include judgments and estimates. These appraisals are adjusted by applying management's judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions.	6

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Item or balance affected by judgments or estimates	Applied by	Key judgments or estimates	Corresponding note(s)
Initial recognition and measurement of goodwill and intangible assets, as well as subsequent measurement	Management of the Corporation and of its subsidiaries	Evaluating the synergies and future benefits in business combinations for initial recognition and measurement of goodwill and intangible assets as well as determining the recoverable amount. The determination of the recoverable amount of the cash generating units (to which goodwill and intangible assets are assigned) relies upon valuation methodologies that require the use of estimates.	3, 11
Determination of cash generating unit groupings	Management of the Corporation and of its subsidiaries	Determining the cash generating unit groupings as the lowest level at which the assets are monitored for internal reporting purposes.	11
Measurement of the pension and other post-employment benefit obligations	Management of the Corporation and of its subsidiaries	Determining the actuarial assumptions used to determine the expense and defined benefit obligations for pension plans and other post-employment benefits. Management reviews the previous experience of related plan members and market conditions, including interest rates and inflation rates, in evaluating the assumptions used in determining the expense for the current year.	25
Recognition and measurement of tax provisions and tax assets and liabilities	Management of the Corporation and of its subsidiaries	Interpreting the relevant tax laws, regulations and legislation where the Corporation and its subsidiaries operate to determine the tax provisions and the carrying amounts of the tax assets and liabilities.	17
Recoverability of deferred tax asset carrying values	Management of the Corporation and of its subsidiaries	Assessing the recoverability of the deferred tax asset carrying values based on future years' taxable income projections.	17
Recognition and measurement of legal and other provisions	Management of the Corporation and of its subsidiaries	Assessing whether a past event will result in a probable outflow of economic resources to settle the obligation. Judgment is used in evaluating the possible outcomes and risks to determine the best estimate of the provision at the balance sheet date.	31
Derecognition of securitization mortgages	Management of IGM	Determining whether securitized mortgages are derecognized requires judgment with respect to the extent to which the risks and rewards of ownership are transferred.	14
Classification of purchases and sales of portfolio investments in the statements of cash flows	Management of Lifeco	Determining if purchases and sales of portfolio investments are long term in nature, which would result in recording them within investment activities in the consolidated statements of cash flows.	n/a
Classification of revenues and expenses in sub-advisor arrangements	Management of Lifeco	Determining whether Lifeco retains the primary obligation with a client in sub-advisor arrangements. Where Lifeco retains the primary obligation to the client, revenues and expenses are recorded on a gross basis	n/a
Deferred selling commissions	Management of IGM	Determining whether the client or the fund is the customer, as well as the assessment of the recoverability of the deferred selling commissions.	10
Deferred acquisition costs	Management of Lifeco	Determining whether deferred acquisition costs can be recognized on the consolidated balance sheets. Deferred acquisition costs are recognized if Lifeco's management determines the costs meet the definition of an asset and are incremental and related to the issuance of the investment contract.	10

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Interest income is accounted for on an accrual basis using the effective interest method for bonds and mortgage and other loans. Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed shares and usually the notification date or date when the shareholders have approved the dividend for private equity instruments. Interest income and dividend income are recorded in net investment income in the Consolidated Statements of Earnings (statements of earnings).

Lifeco

Premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk are generally recognized as revenue when due and collection is reasonably assured.

Investment property income includes rents earned from tenants under lease agreements and property tax and operating cost recoveries. Leases with contractual rent increases and rent-free periods are recognized on a straight-line basis over the term of the lease. Investment property income is included in net investment income in the statements of earnings.

Fee income primarily includes fees earned from the management of segregated fund assets, proprietary mutual fund assets, record keeping, fees earned on administrative services only for Group health contracts, commissions and fees earned from management services. Fee income is recognized on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

Lifeco has sub-advisor arrangements where Lifeco retains the primary obligation with the client. As a result, fee income earned is reported on a gross basis, with the corresponding sub-advisor expense recorded in operating and administrative expenses.

IGM Financial

Management fees are based on the net asset value of the investment fund or other assets under management and are recognized on an accrual basis as the service is performed. Administration fees are recognized on an accrual basis as the service is performed. Distribution fees derived from investment fund and securities transactions are recognized on a trade-date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis. Consideration is collected within a short period from the date of revenue recognition of the associated services. Management, administration and distribution fees are included in fee income in the statements of earnings.

Other subsidiaries

Revenues from contracts with customers are recognized by other subsidiaries when control of the goods or services are transferred to the customer for the amount that reflects the consideration to which the subsidiary expects to receive in exchange for the goods or services.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, current operating accounts, overnight bank and term deposits and fixed income securities with an original term to maturity of three months or less.

INVESTMENTS

Investments include bonds, mortgage and other loans, shares, investment properties, and loans to policyholders of Lifeco. Investments are classified as either fair value through profit or loss, available for sale, held to maturity, loans and receivables, or as non-financial instruments based on management's intention relating to the purpose and nature of the instruments or the characteristics of the investments. The Corporation and its subsidiaries currently have not classified any investments as held to maturity.

A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch or if a financial asset is managed and its performance is evaluated on a fair value basis. For Lifeco, changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Investments in mortgage and other loans are initially classified with respect to the intent of the loan on origination.

Investments in bonds (including fixed income securities), mortgage and other loans and shares actively traded on a public market or where fair value can be reliably measured are either designated or classified as fair value through profit or loss or classified as available for sale and are recorded on a trade-date basis. Equity-release mortgages are designated as fair value through profit or loss.

Fair value through profit or loss investments are recorded at fair value on the Consolidated Balance Sheets (balance sheets) with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recorded at fair value on the balance sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses are reclassified from other comprehensive income and recorded in net investment income in the statements of earnings when the available-for-sale investment is sold or impaired.

Investments in mortgage and other loans and bonds not actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned, impairments and realized gains and losses on the sale of investments classified as loans and receivables are recorded in net investment income in the statements of earnings.

Investment properties consist of real estate held to earn rental income or for capital appreciation that have an insignificant portion that is owner-occupied or where there is no intent to occupy on a long-term basis. Properties that do not meet these criteria are classified as owner-occupied properties. Investment properties are initially measured at cost and subsequently carried at fair value on the balance sheets. Changes in fair value are recorded as net investment income in the statements of earnings.

Loans to policyholders of Lifeco are classified as loans and receivables and measured at amortized cost. Loans to policyholders are shown at their unpaid principal balance and are fully secured by the cash surrender values of the policies. The carrying value of loans to policyholders approximates fair value.

Fair value measurement

The carrying values of financial assets reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation and its subsidiaries rely upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance contract liabilities are largely offset by corresponding changes in the fair value of these liabilities, except when the bond has been deemed impaired.

The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following is a description of the methodologies used to determine fair value.

a) Bonds and mortgage and other loans at fair value through profit or loss and available for sale

Fair values of bonds and mortgage and other loans recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds and mortgage and other loans at fair value. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate the fair value of bonds and mortgage and other loans not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodologies, discounted cash flow analyses and/or internal valuation models. These methodologies consider such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as yield curves, credit curves, prepayment rates and other relevant factors. For bonds and mortgage and other loans that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

b) Shares at fair value through profit or loss and available for sale

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movements relative to the market and utilization of information provided by the underlying investment manager. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure shares at fair value.

c) Equity-release mortgages at fair value through profit or loss

There are no market observable prices for equity-release mortgages; an internal valuation model is used which is based on discounting expected future cash flows and considering the embedded no-negative-equity guarantee. Inputs to the model include market-observable inputs such as benchmark yields and risk-adjusted spreads. Non-market observable inputs include property growth and volatility rates, expected rates of voluntary redemptions, death, moving to long-term care and interest cessation assumptions and the value of the no-negative-equity guarantee.

d) Bonds and mortgage and other loans classified as loans and receivables

The fair values disclosed for bonds and mortgage and other loans, classified as loans and receivables, are determined by discounting expected future cash flows using current market rates for similar instruments. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

e) Investment properties

Fair values for investment properties are determined using independent qualified appraisal services and include adjustments by Lifeco management for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment properties requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

Impairment

Investments are reviewed on an individual basis at the end of each reporting period to determine whether there is any objective evidence of impairment. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired bonds and mortgage and other loans classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the net realizable value. Where available-for-sale bonds are determined to be impaired, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, interest is no longer accrued on impaired bonds and mortgage and other loans and previous interest accruals are reversed in net investment income.

Impairment losses on available-for-sale shares are recorded in net investment income if the loss is significant or prolonged. Subsequent losses are recorded directly in net investment income.

Securities lending

Lifeco engages in securities lending through its securities custodians as lending agents. Loaned securities are not derecognized, and continue to be reported within investments, as Lifeco retains substantial risks and rewards and economic benefits related to the loaned securities.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

TRANSACTION COSTS

Transaction costs related to financial instruments classified or designated as fair value through profit or loss are expensed as incurred. Transaction costs related to financial assets classified as available for sale or loans and receivables are included in the value of the instrument at acquisition, and recorded in net earnings using the effective interest method. Transaction costs related to financial liabilities classified as other than fair value through profit or loss are deducted from the value of the instrument issued and recorded in net earnings using the effective interest method.

OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

Owner-occupied properties and capital assets include right-of-use assets.

Owner-occupied properties and capital assets are carried at cost less accumulated depreciation, disposals and impairments. Capital assets include equipment, furniture and fixtures. Owner-occupied properties, equipment, furniture and fixtures are depreciated using the straight-line method, over their estimated useful lives, as follows: i) owner-occupied properties (10 to 50 years); and ii) capital assets (3 to 20 years).

Right-of-use assets are depreciated to the earlier of the end of the estimated useful life of right-of-use asset or the end of the lease term using the straight-line method. Depreciation expense is included within operating and administration expenses.

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary. Owner-occupied properties and capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

LEASES

At inception of a contract, the Corporation and its subsidiaries assess whether a contract is or contains a lease. The Corporation and its subsidiaries recognize a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. Right-of-use assets are included within owner-occupied properties and capital assets with the exception of right-of-use assets which meet the definition of investment property which are presented within investment properties and subject to the Corporation's associated accounting policy.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's or its subsidiaries' incremental borrowing rate. Generally, the incremental borrowing rate is used. The lease liability is measured at amortized cost using the effective interest method and is included within other liabilities. Interest expense on lease liabilities is included within financing charges.

The Corporation and its subsidiaries do not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the term within operating and administrative expenses.

For the 2018 comparative figures, leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Corporation and its subsidiaries are the lessee, are recorded in net earnings over the period of use.

Where the Corporation and its subsidiaries are the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the balance sheets. Income from these leases is recognized in the statements of earnings on a straight-line basis over the lease term.

Leases that transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Where the Corporation and its subsidiaries are the lessor under a finance lease, the investment is recognized as a receivable at an amount equal to the net investment in the lease which is the present value of the minimum lease payments due from the lessee presented within the balance sheets. Payments received from the lessee are apportioned between the recognition of finance lease income and the reduction of the finance lease receivable. Income from the finance leases is recognized in the statements of earnings at a constant periodic rate of return on net investment in the finance lease.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

OTHER ASSETS

Other assets include premiums in course of collection, accounts receivable and interest receivable, prepaid expenses, deferred acquisition costs, deferred selling commissions and miscellaneous other assets which are measured at amortized cost.

Deferred acquisition costs

Deferred acquisition costs relating to investment contracts are recognized as assets if the costs are incremental and incurred due to the contract being issued. Deferred acquisition costs are amortized on a straight-line basis over the term of the policy, not exceeding 20 years.

Deferred selling commissions

Commissions are paid on investment product sales where IGM either receives a fee directly from the client or where it receives a fee directly from the investment fund.

Commissions paid on investment product sales where IGM receives a fee directly from the client are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

All other commissions paid on investment product sales are expensed as incurred.

ASSETS AND LIABILITIES HELD FOR SALE

Disposal groups are classified as held for sale when it has been determined that the carrying amount will be recovered through a sale transaction rather than continuing use. The disposal group is measured at the lower of its carrying amount and fair value less cost to sell. Individual assets and liabilities in a disposal group not subject to these measurement requirements include financial assets, investment properties and insurance contract liabilities. These assets and liabilities are measured in accordance with the relevant accounting policies described for those assets and liabilities included in this note before the disposal group as a whole is measured at the lower of its carrying amount and fair value less cost to sell. Any impairment loss for the disposal group is recognized as a reduction to the carrying amount for the portion of the disposal group under the measurement requirements for IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*.

Disposal group assets and liabilities classified as held for sale are presented separately on the balance sheets. Losses from disposal groups held for sale are included in operating and administrative expenses.

BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

Business combinations are accounted for using the acquisition method. Goodwill represents the excess of purchase consideration over the fair value of net assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets comprise finite life and indefinite life intangible assets. Finite life intangible assets include the value of technology and software, certain customer contracts and power purchase agreements. Finite life intangible assets are reviewed at least annually to determine if there are indicators of impairment and the amortization period and method are reviewed and adjusted if necessary. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows: i) technology and software (3 to 10 years); ii) customer contract-related (7 to 30 years); and iii) power purchase agreements (20 years).

Indefinite life intangible assets include brands, trademarks and trade names, certain customer contracts, mutual fund management contracts and the shareholders' portion of acquired future participating account profit. Amounts are classified as indefinite life intangible assets based on an analysis of all the relevant factors, and when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. The identification of indefinite life intangible assets is made by reference to relevant factors such as product life cycles, potential obsolescence, industry stability and competitive position. Following initial recognition, indefinite life intangible assets are measured at cost less accumulated impairment losses.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Impairment testing

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

Goodwill and indefinite life intangible assets have been allocated to cash generating units or to groups of cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of the CGU to the recoverable amount of the CGU to which the goodwill and indefinite life intangible assets have been allocated.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of disposal or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

SEGREGATED FUNDS

Segregated fund assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately in the balance sheets. The assets and liabilities are set equal to the fair value of the underlying asset portfolio. Investment income and change in fair value of the segregated fund assets are offset by corresponding changes in the segregated fund liabilities.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Contract classification

When significant insurance risk exists, Lifeco's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Significant insurance risk exists when Lifeco agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Refer to Note 13 for a discussion on Lifeco's insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Lifeco has not classified any contracts as investment contracts with discretionary participating features.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to Note 22 for a discussion on Lifeco's risk management.

Measurement

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiaries are responsible for determining the amount of the liabilities in order to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the CALM. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality and morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and for future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

REINSURANCE CONTRACTS

Lifeco, in the normal course of business, is a user of reinsurance in order to limit the potential for losses arising from certain exposures and a provider of reinsurance. Assumed reinsurance refers to the acceptance of certain insurance risks by Lifeco underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, Lifeco remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Reinsurance contracts are insurance contracts and undergo the classification as described within the Insurance and Investment Contract Liabilities section of this note. Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Lifeco considers various factors in the impairment evaluation process, including, but not limited to, collectability of amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the statements of earnings.

Any gains or losses on buying reinsurance are recognized in the statement of earnings immediately at the date of purchase in accordance with the CALM.

Assets and liabilities related to reinsurance are reported on a gross basis in the balance sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

FUNDS HELD BY CEDING INSURERS / FUNDS HELD UNDER REINSURANCE CONTRACTS

On the asset side, funds held by ceding insurers are assets that would normally be paid to Lifeco but are retained by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds-withheld basis supporting the insurance or investment contract liabilities ceded. For the funds-withheld assets where the underlying asset portfolio is managed by Lifeco, the credit risk is retained by Lifeco. The funds-withheld balance where Lifeco assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See Note 7 for funds held by ceding insurers that are managed by Lifeco. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds-withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

On the liability side, funds held under reinsurance contracts consist mainly of amounts retained by Lifeco from ceded business written on a funds-withheld basis. Lifeco withholds assets related to ceded insurance contract liabilities in order to reduce credit risk.

POLICYHOLDER BENEFITS

Policyholder benefits include benefits and claims on life insurance contracts, maturity payments, annuity payments and surrenders. Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

DERECOGNITION OF SECURITIZED MORTGAGES

IGM enters into transactions where it transfers financial assets recognized on its balance sheets. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

If substantially all of the risks and rewards of a financial asset are not retained, IGM derecognizes the financial asset. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in net investment income in the statements of earnings.

If all or substantially all risks and rewards are retained, the financial assets are not derecognized and the transactions are accounted for as secured financing transactions.

OTHER FINANCIAL LIABILITIES

Debentures and other debt instruments, and capital trust debentures are initially recorded on the balance sheets at fair value and subsequently carried at amortized cost using the effective interest method with amortization expense recorded in financing charges in the statements of earnings. These liabilities are derecognized when the obligation is expired, cancelled or redeemed.

Accounts payable, dividends and interest payable, and deferred income reserves are measured at amortized cost. Deferred income reserves related to investment contracts are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not exceeding 20 years.

Provisions are recognized within other liabilities when the Corporation or its subsidiaries have a present obligation, either legal or constructive, as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount. Provisions are measured based on management of the Corporation and of its subsidiaries' best estimate at the balance sheet date. The Corporation recognizes a provision for restructuring when a detailed formal plan for the restructuring has been established and the plan has raised a valid expectation in those affected that the restructuring will occur.

Limited-life fund units represent the interest held by third parties in funds consolidated by the Corporation. These fund units have a defined maximum fixed life where the Corporation has an obligation to distribute the residual interests of the fund to fund partners based on their proportionate share of the fund's equity in the form of cash or other financial assets at the end of the fund's life. Limited-life funds are classified as liabilities and recorded at fair value. Changes in the value are recorded in the statements of earnings in the period of the change.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors, unfunded supplementary employee retirement plans (SERP) for certain employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. Expenses for defined benefit plans are actuarially determined using the projected unit credit method prorated on service, based upon management of the Corporation and of its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The Corporation and its subsidiaries' accrued benefit liability in respect to defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined by reference to market yields on high-quality corporate bonds.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.

Net interest costs, current service costs, past service costs and curtailment and settlement gains or losses are included in operating and administrative expenses.

Remeasurements represent actuarial gains and losses and the actual return on plan assets, less interest calculated at the discount rate, and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not subsequently reclassified to net earnings.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

The accrued benefit asset (liability) represents the plan surplus (deficit) and is included in other assets (other liabilities).

Contributions to the defined contribution plans are expensed as incurred.

INCOME TAXES

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or recovery in the statements of earnings, except to the extent that it relates to items that are not recognized in the statements of earnings (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized in other comprehensive income or directly in equity.

Current income tax

Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current tax liabilities are offset, if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred income tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income and on unused tax attributes, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax attributes can be utilized.

Recognition of deferred tax assets is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets. The Corporation and its subsidiaries' financial planning process provides a significant basis for the measurement of deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, jointly controlled corporations and associates, except where the group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation and its subsidiaries use derivative products as risk management instruments to hedge or manage revenues and asset, liability and capital positions. The Corporation and its subsidiaries' policies prohibit the use of derivative instruments for speculative trading purposes.

Derivatives are measured at fair value and recorded on the balance sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income in the statements of earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The Corporation and its subsidiaries generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently, as if there was no hedging relationship.

Where a hedging relationship exists, the Corporation and its subsidiaries document all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheets or to specific firm commitments or forecasted transactions. The Corporation and its subsidiaries also assess, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting change in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing. Hedge accounting is discontinued when the hedge no longer qualifies for hedge accounting.

Fair value hedges
Fair value hedges are used to manage the exposure to change in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, change in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

Cash flow hedges
Cash flow hedges are used to manage the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. For cash flow hedges, the effective portion of the change in fair value of the hedging instrument is recorded in other comprehensive income, while the ineffective portion is recognized immediately in net investment income. Gains and losses on cash flow hedges that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when a forecasted transaction is no longer expected to occur.

Net investment hedges
Net investment hedges are used to manage the exposure to changes in the reporting entity's share in the net share of a foreign operation. For net investment hedges, the effective portion of changes in the fair value of the hedging instrument is recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. The unrealized foreign exchange gains (losses) on the instruments are recorded within other comprehensive income and will be reclassified into net earnings when the investments are derecognized.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Embedded derivatives are treated as separate contracts and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through the statement of earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

EQUITY

Preferred shares are classified as equity if they are non-redeemable or if they are retractable only at the Corporation's option and if any dividends are discretionary. Costs that are directly attributable to the issue of share capital are recognized as a reduction from retained earnings, net of income tax.

Reserves are composed of share-based compensation and other comprehensive income. Share-based compensation reserve represents the vesting of options less options exercised. Other comprehensive income represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the actuarial gains (losses) on benefit pension plans, the unrealized gains (losses) on available-for-sale investments, the unrealized gains (losses) on cash flow hedges, and the share of other comprehensive income of jointly controlled corporations and associates.

Non-controlling interests represent the proportion of equity that is attributable to minority shareholders of subsidiaries.

SHARE-BASED PAYMENTS

Options granted to employees of the Corporation and its subsidiaries are measured at fair value on the date of the grant. Compensation expense is recognized in operating and administrative expenses in the statements of earnings over the vesting period of the granted options, with a corresponding increase in share-based compensation reserve. When the stock options are exercised, the proceeds received, together with the amount recorded in share-based compensation reserve, are included in the stated capital of the entity issuing the corresponding shares.

The Corporation and its subsidiaries recognize a liability for cash-settled awards, including those granted under Performance Share Unit plans and Deferred Share Unit plans. Compensation expense is recognized in operating and administrative expenses in the statements of earnings, net of related hedges, and a liability is recognized on the balance sheets over the vesting period. The liability is remeasured at fair value at each reporting period with the change in the liability recorded in operating and administrative expenses.

FOREIGN CURRENCY TRANSLATION

The Corporation and its subsidiaries operate with multiple functional currencies. The Corporation's financial statements are prepared in Canadian dollars, which is the functional and presentation currency of the Corporation.

Assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at exchange rates prevailing at the balance sheet dates for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenues and expenses denominated in foreign currencies are translated into each entity's functional currency at an average of daily rates. Realized and unrealized exchange gains and losses are included in net investment income.

Translation of net investment in foreign operations

Foreign operations are subsidiaries, jointly controlled corporations, associates and/or business units with functional currencies other than the Canadian dollar. Assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all revenues and expenses are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Corporation's net investment in its foreign operations are presented as a component of other comprehensive income. Unrealized foreign currency translation gains and losses are recognized proportionately in net earnings when there has been a disposal of a foreign operation.

EARNINGS PER PARTICIPATING SHARE

Basic earnings per participating share is determined by dividing net earnings available to participating shareholders by the weighted average number of participating shares outstanding for the year. Diluted earnings per participating share is determined using the same method as basic earnings per participating share, except that net earnings available to participating shareholders and the weighted average number of participating shares outstanding are adjusted to include the potential dilutive effect of outstanding stock options granted by the Corporation and its subsidiaries, as determined by the treasury stock method.

COMPARATIVE FIGURES

The Corporation reclassified certain comparative figures for disclosure items to conform to the current year's presentation. These reclassifications had no impact on the total equity or net earnings of the Corporation.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

FUTURE ACCOUNTING CHANGES

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

New standard	Summary of future changes
IFRS 17 – *Insurance Contracts* (IFRS 17)	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard by one year to January 1, 2022. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period on the exposure draft, on March 17, 2020, the IASB approved the deferral of the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. In addition, the IASB extended to January 1, 2023 the exemption for insurers to apply the financial instruments standard, IFRS 9 - *Financial Instruments*, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB has also confirmed certain amendments proposed in the exposure draft – namely the amendment on the expected recovery of insurance acquisition cash flows – and has also agreed to extend the scope of the amendment related to the recovery of losses on reinsurance contracts to apply to all reinsurance held contracts. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework and project plan, for which substantial resources are being dedicated. Lifeco has assembled a project team that is working on implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. These groups are also monitoring developments from the IASB and various industry groups that Lifeco has representation on. Lifeco has made progress in implementing its project plan, with key policy decisions well advanced as well as progression on the implementation of the technology solution. Lifeco continues to evaluate the readiness of technology vendors and their ability to deliver for IFRS 17 implementation. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows: the current estimates of amounts that Lifeco expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin: the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the CALM, where the discount rate was based on the yield curves of the assets supporting those liabilities (refer to the Corporation's significant accounting policies in Note 2 of these financial statements). The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance coverage is provided. IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, Lifeco expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how the financial performance is reported in the statements of earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. Lifeco is also actively monitoring potential impacts on regulatory capital and its associated ratios and disclosures. Lifeco continues to assess all these impacts through its global implementation plan.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

New standard	Summary of future changes
Current implication of IFRS 9 – *Financial Instruments* (IFRS 9)	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, the current standard for accounting for financial instruments, with an effective date of January 1, 2018. The effective date for IFRS 9 has been deferred to align with the effective date for IFRS 17 of January 1, 2023. The standard was completed in three separate phases: ▪ Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. ▪ Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model. ▪ Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities. In September 2016, the IASB issued an amendment to IFRS 4, *Insurance Contracts* (IFRS 4). The amendment "Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: ▪ *Deferral Approach:* provides the option to defer implementation of IFRS 9 until the proposed effective date of the new insurance contract standard; or ▪ *Overlay Approach:* provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Corporation qualifies and has elected to apply the deferral approach which permits the adoption of both IFRS 9 and IFRS 17, simultaneously. The disclosure for the measurement and classification of the Corporation's portfolio investments provides most of the information required by IFRS 9. The Corporation and Lifeco continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. Pargesa (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted although not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to Pargesa's results.
IFRS 3 – *Business Combinations* (IFRS 3)	In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. The amendments will be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.
IAS 1 – *Presentation of Financial Statements* (IAS 1) and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8)	In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments are to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2020.
IFRS 9 – *Financial Instruments* (IFRS 9) IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39) and IFRS 7 – *Financial Instruments: Disclosures* (IFRS 7)	In September 2019, the IASB issued amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective for periods beginning on or after January 1, 2020. Although adoption of these amendments will not have a significant impact on the Corporation's consolidated financial statements, additional disclosures will be required.

NOTE 3 Business Acquisitions and Other Transactions

LIFECO

U.S. individual life insurance and annuity business reinsurance agreement

On January 24, 2019, Great-West Life & Annuity, a wholly owned subsidiary of Lifeco, announced that it had entered into an agreement with Protective Life Insurance Company (Protective Life) to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business in the United States. The transaction was completed on June 1, 2019. As a result of the transaction, the balance sheets were impacted by the transfer of $15,511 million of investments to Protective Life (Note 6), recognition of $15,230 million of reinsurance assets (Note 13) and $985 million of cash received. Within the statements of earnings, Lifeco recognized increases of $13,889 million to ceded premiums, $1,080 million to fee income, $219 million to net investment income (Note 6) and $120 million to operating and administrative expenses (Note 23), as well as a decrease of $12,463 million to total paid or credited to policyholders.

In the second quarter of 2019, Lifeco recognized a loss of $247 million ($199 million after tax) related to this transaction, which included transaction costs of $80 million ($63 million after tax), and $45 million ($36 million after tax) due to updated expense assumptions primarily related to stranded overhead. The liabilities transferred and ceding commissions received at the closing of this transaction are subject to future adjustments. In October 2019, Protective Life provided Lifeco with its listing of proposed adjustments with respect to the liabilities transferred. In December 2019, Lifeco formally objected to these proposed adjustments. The Master Transaction Agreement requires the parties to attempt to resolve these differences in an informal manner and that process is ongoing. Based on the information presently known, it is difficult for Lifeco to predict the outcome of this matter with certainty, but this matter is not expected to materially impact the Corporation's financial position.

Invesco Ltd. (Ireland)

On August 1, 2018, Lifeco, through its indirect wholly owned subsidiary Irish Life, completed its agreement to acquire a controlling interest in Invesco Ltd. (Ireland), an independent financial consultancy firm in Ireland specializing in employee benefit consultancy and private wealth management that manages and administers assets on behalf of clients.

During the second quarter of 2019, Lifeco completed its comprehensive evaluation of the fair value of the net assets acquired, including intangible assets and completion of the final purchase price allocation, with no significant adjustment to goodwill. Revenue and net earnings of Invesco Ltd. (Ireland) were not significant to the results of the Corporation.

NOTE 3 Business Acquisitions and Other Transactions (continued)

POWER ENERGY CORPORATION

Nautilus Solar Energy, LLC

On July 30, 2019, Power Energy Corporation, a wholly owned subsidiary of the Corporation, acquired for a cash consideration of US$25 million a 100% equity interest in Nautilus Solar Energy, LLC (Nautilus), a company that acquires, develops, finances and manages distributed solar projects across community, municipal/utility-scale, commercial and industrial markets.

Acquisition of assets

In 2019, Power Energy Corporation, through its wholly owned subsidiaries, acquired operating wind and solar assets in North America.

The amounts assigned to the assets acquired and liabilities assumed for these acquisitions are as follows:

Assets acquired	
Owner-occupied properties and capital assets	208
Other assets	8
Intangible assets	142
	358
Less: liabilities assumed	
Other debt instruments	153
Other liabilities	61
	214
Net assets acquired	144
Consideration	
Cash, net of cash and cash equivalents acquired	123
Non-controlling interests, at fair value	21
	144

SQUARE VICTORIA COMMUNICATIONS GROUP

On May 8, 2018, La Presse ltée (La Presse), a French-language news media company which provides content on several digital platforms, announced its intention to adopt a not-for-profit structure that would benefit from a financial contribution of $50 million from Power Corporation. The transaction closed on July 14, 2018 and consisted of a transfer of all assets and liabilities of La Presse into the not-for-profit structure with the exception that Power Corporation has retained responsibility for the funding on a going-concern basis of the retirement obligations accrued at the transaction date. As a result, the Corporation recorded a net loss of $54 million, including the financial contribution of $50 million mentioned above, which was included within operating and administrative expenses in the statements of earnings for the year ended December 31, 2018.

NOTE 4 Assets Held for Sale

Sale of policies to Scottish Friendly Assurance Society Limited

On June 21, 2018, Canada Life Limited, an indirect wholly owned subsidiary of Lifeco, announced an agreement to sell a heritage block of individual policies to Scottish Friendly of $4,216 million, comprised of unit-linked policies of $3,319 million and non-unit-linked policies of $897 million.

The initial composition of the assets and liabilities of the disposal group classified as assets held for sale at December 31, 2018 was as follows:

	December 31, 2018
Assets	
Cash and cash equivalents	112
Investments	
Bonds	731
Shares	22
Investment properties	29
Loans to policyholders	3
Assets held for sale	897
Investments on account of segregated fund policyholders	3,319
Total assets included in disposal group classified as held for sale	4,216
Liabilities	
Insurance contract liabilities	870
Investment contract liabilities	27
Liabilities held for sale	897
Insurance and investment contracts on account of segregated fund policyholders	3,319
Total liabilities included in disposal group classified as held for sale	4,216

On October 22, 2019, the required court approval for the transfer of these policies was received and the transfer occurred, effective November 1, 2019, as part of Lifeco's United Kingdom Business Transformation (Note 23).

Net earnings from the disposal of these policies will be finalized in the first half of 2020 and are not expected to be material to the financial statements.

NOTE 5 Cash and Cash Equivalents

	December 31, 2019	December 31, 2018
Cash	3,643	3,486
Cash equivalents	3,162	2,955
Cash and cash equivalents	6,805	6,441

At December 31, 2019, cash amounting to $591 million was restricted for use by subsidiaries ($432 million at December 31, 2018) primarily in respect of cash held in trust for reinsurance agreements or with regulatory authorities, under certain indemnity arrangements and in escrow.

NOTE 6 Investments

CARRYING VALUES AND FAIR VALUES

Carrying values and estimated fair values of investments are as follows:

	December 31, 2019 [1]		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated as fair value through profit or loss [2]	84,128	84,128	89,929	89,929
Classified as fair value through profit or loss [2]	1,717	1,717	1,886	1,886
Available for sale	12,028	12,028	13,713	13,713
Loans and receivables	17,372	19,344	19,722	20,619
	115,245	117,217	125,250	126,147
Mortgage and other loans				
Loans and receivables	30,461	31,420	32,080	32,524
Designated as fair value through profit or loss [2]	1,314	1,314	813	813
Classified as fair value through profit or loss [2]	–	–	4	4
	31,775	32,734	32,897	33,341
Shares				
Designated as fair value through profit or loss [2]	9,752	9,752	8,658	8,658
Classified as fair value through profit or loss [2]	173	173	136	136
Available for sale [3]	1,624	1,624	1,568	1,568
	11,549	11,549	10,362	10,362
Investment properties	5,887	5,887	5,218	5,218
Loans to policyholders	8,601	8,601	8,929	8,929
	173,057	175,988	182,656	183,997

[1] As a result of the reinsurance transaction with Protective Life (Note 3), investments were derecognized and reinsurance assets were recognized (Note 13).

[2] A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch or if a financial asset is managed and its performance is evaluated on a fair value basis. For Lifeco, changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

[3] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are held at cost.

BONDS AND MORTGAGE AND OTHER LOANS

Carrying value of bonds and mortgage and other loans due over the current and non-current term is as follows:

				Carrying value
	Term to maturity			
December 31, 2019	1 year or less	1-5 years	Over 5 years	Total
Bonds	12,351	26,098	76,759	115,208
Mortgage and other loans [1]	2,452	14,124	15,168	31,744
	14,803	40,222	91,927	146,952

[1] Mortgage and other loans include equity-release mortgages which do not have a fixed redemption date. The maturity profile of the portfolio has therefore been estimated based on redemption experience.

				Carrying value
	Term to maturity			
December 31, 2018	1 year or less	1-5 years	Over 5 years	Total
Bonds	11,944	28,368	84,736	125,048
Mortgage and other loans [1]	2,228	14,499	16,143	32,870
	14,172	42,867	100,879	157,918

[1] Mortgage and other loans include equity-release mortgages which do not have a fixed redemption date. The maturity profile of the portfolio has therefore been estimated based on redemption experience.

The table shown above excludes the carrying value of impaired bonds and mortgage and other loans, as the ultimate timing of collectability is uncertain.

NOTE 6 Investments (continued)

IMPAIRED INVESTMENTS AND ALLOWANCE FOR CREDIT LOSSES

Carrying amount of impaired investments is as follows:

	December 31, 2019	December 31, 2018
Impaired amounts by classification		
Fair value through profit or loss	21	178
Available for sale	21	101
Loans and receivables	31	31
Total	73	310

The carrying amount of impaired investments includes bonds, mortgage and other loans and shares. The above carrying values for loans and receivables are net of allowances for credit losses of $53 million as at December 31, 2019 ($21 million as at December 31, 2018). The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

NET INVESTMENT INCOME

Year ended December 31, 2019	Bonds	Mortgage and other loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	3,971	992	314	374	548	6,199
Net realized gains						
Available-for-sale	57	–	168	–	–	225
Other classifications [1]	164	175	–	–	–	339
Net allowances for credit losses on loans and receivables	–	(50)	–	–	–	(50)
Other income (expenses)	–	6	20	(117)	(167)	(258)
	4,192	1,123	502	257	381	6,455
Change in fair value through profit or loss	5,785	107	1,446	37	(388)	6,987
Net investment income	9,977	1,230	1,948	294	(7)	13,442

[1] Includes realized gains from invested assets transferred as a result of the reinsurance transaction with Protective Life (Note 3).

Year ended December 31, 2018	Bonds	Mortgage and other loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	4,435	982	285	340	543	6,585
Net realized gains						
Available-for-sale	(7)	–	186	–	–	179
Other classifications	15	82	–	–	21	118
Net allowances for credit losses on loans and receivables	–	(4)	–	–	–	(4)
Other income (expenses)	–	(3)	15	(95)	(122)	(205)
	4,443	1,057	486	245	442	6,673
Change in fair value through profit or loss	(3,040)	(24)	(774)	33	201	(3,604)
Net investment income	1,403	1,033	(288)	278	643	3,069

Investment income earned comprises income from investments that are classified as available for sale, loans and receivables and investments classified or designated as fair value through profit or loss, net of impairment charges. Investment income from bonds and mortgage and other loans includes interest income and premium and discount amortization. Income from shares includes dividends and distributions from equity investment funds. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

NOTE 6 Investments (continued)

TRANSFERRED FINANCIAL ASSETS

Lifeco engages in securities lending to generate additional income. Lifeco's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with Lifeco's lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent, who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. Included in the collateral deposited with Lifeco's lending agent is cash collateral of $398 million as of December 31, 2019 ($84 million at December 31, 2018). In addition, the securities lending agent indemnifies Lifeco against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2019, Lifeco had loaned securities (which are included in investments) with a fair value of $7,023 million ($8,847 million at December 31, 2018).

NOTE 7 Funds Held by Ceding Insurers

At December 31, 2019, Lifeco had amounts on deposit of $8,714 million ($9,251 million at December 31, 2018) for funds held by ceding insurers on the balance sheets. Income and expenses arising from the agreements are included in net investment income on the statements of earnings.

The details of the funds on deposit for certain agreements where Lifeco has credit risk are as follows:

Carrying values and estimated fair values

	December 31, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	216	216	230	230
Bonds	6,445	6,445	6,925	6,925
Other assets	80	80	91	91
	6,741	6,741	7,246	7,246
Supporting:				
Reinsurance liabilities	6,537	6,537	6,992	6,992
Surplus	204	204	254	254
	6,741	6,741	7,246	7,246

Asset quality

The following table provides details of the carrying value of the bond portfolio by credit rating:

	December 31, 2019	December 31, 2018
AAA	601	609
AA	2,670	2,858
A	2,264	2,698
BBB	822	667
BB and lower	88	93
Total bonds	6,445	6,925

NOTE 8 Investments in Jointly Controlled Corporations and Associates

The carrying values of the investments in jointly controlled corporations and associates are as follows:

		Associates		Jointly controlled corporations		
December 31, 2019	Personal Capital	China AMC	Other	Parjointco	Other	Total
Carrying value, beginning of year	–	1,362	172	3,291	262	5,087
Acquisition	217	–	–	–	–	217
Investments	–	–	57	–	6	63
Share of earnings (losses)	(17)	60	(21)	193	(3)	212
Share of other comprehensive income (loss)	(6)	(81)	(8)	545	(8)	442
Dividends and distributions	–	(20)	–	(80)	(31)	(131)
Effects of changes in ownership and other	–	–	–	5	(2)	3
Carrying value, end of year	194	1,321	200	3,954	224	5,893

	Associates		Jointly controlled corporations		
December 31, 2018	China AMC	Other	Parjointco	Other	Total
Carrying value, beginning of year	1,290	198	3,354	312	5,154
Investments	–	9	–	73	82
Disposal	–	(17)	–	(201)	(218)
Share of earnings (losses)	58	(26)	57	75	164
Share of other comprehensive income (loss)	38	9	(36)	12	23
Dividends and distributions	(24)	–	(75)	(2)	(101)
Effects of changes in ownership and other	–	(1)	(9)	(7)	(17)
Carrying value, end of year	1,362	172	3,291	262	5,087

PARJOINTCO

At December 31, 2019, the Corporation held a 50% interest in Parjointco, a jointly controlled corporation. Parjointco held a 55.5% equity interest in Pargesa (same as at December 31, 2018), representing 75.4% of the voting rights.

At December 31, 2019, the net asset value of the Corporation's indirect interest in Pargesa is approximately $4,085 million. The carrying value of the investment in Pargesa is $3,954 million. For the year ended December 31, 2019, revenue of Pargesa was SF5,690 million (C$7,597 million) (SF6,174 million or C$8,178 million for the year ended December 31, 2018) and net earnings attributable to Pargesa's common shareholders was SF391 million (C$522 million) (SF361 million or C$478 million for the year ended December 31, 2018). Results reported by Pargesa are in accordance with IFRS 9. The Corporation's share of earnings in Parjointco includes an adjustment to account for Pargesa under IAS 39. Other financial information for Pargesa can be obtained from its publicly available information.

CHINA AMC

At December 31, 2019, Power Corporation and IGM Financial each held an equity interest of 13.9% in China AMC. China AMC is an asset management company established in Beijing, China. The Corporation and IGM account for its interest in China AMC as an associate using the equity method.

Summarized financial information for China AMC is as follows:

	2019		2018	
[in millions]	Canadian dollars	Chinese renminbi	Canadian dollars	Chinese renminbi
Balance sheet at December 31[1]				
Assets	2,171	11,645	2,051	10,342
Liabilities	504	2,701	445	2,242
Comprehensive income for the years ended December 31				
Revenue	763	3,977	733	3,733
Net earnings attributable to common shareholders	230	1,201	224	1,140
Total comprehensive income	234	1,219	235	1,171

[1] Excludes fair value adjustments made at the time of acquisition of $3,248 million (RMB¥16,380 million).

NOTE 8 Investments in Jointly Controlled Corporations and Associates (continued)

PERSONAL CAPITAL

In January 2019, IGM invested an additional $67 million (US$50 million) in Personal Capital which increased its voting interest to 22.7%. IGM has determined that it has significant influence and therefore accounts for its interest as an associate using the equity method. Significant influence arises from its voting interest and board representation. The interest in Personal Capital was previously accounted for as an available-for-sale investment. The carrying value at the time of the acquisition of significant influence was $217 million. The reclassification of the investment from available for sale to an associate resulted in a gain recorded in net investment income.

As at December 31, 2019, IGM held a 24.8% equity interest in Personal Capital. IGM's equity earnings from Personal Capital include its proportionate share of Personal Capital's net loss adjusted by IGM's amortization of intangible assets that it recognized as a part of its investment in Personal Capital.

Summarized financial information for Personal Capital is as follows:

	2019	
	Canadian Dollars	U.S. Dollars
Balance sheet at December 31		
Assets	86	66
Liabilities	23	18
Comprehensive income for the year ended December 31		
Revenue	100	75
Net loss attributable to common shareholders	(56)	(43)
Total comprehensive loss	(56)	(43)

EAGLE CREEK RENEWABLE ENERGY, LLC

In November 2018, the investment in Eagle Creek Renewable Energy, LLC, a jointly controlled corporation previously held through the Corporation's indirect subsidiary Power Energy Eagle Creek LLP with a carrying value of $104 million, was disposed of by the Corporation resulting in a pre-tax gain of $97 million, recorded in the share of earnings of investments in jointly controlled corporations and associates.

NOTE 9 Owner-Occupied Properties and Capital Assets

The carrying value and the changes in the carrying value of owner-occupied properties and capital assets are as follows:

	December 31, 2019			
	Right-of-use [1] assets	Owner-occupied properties	Capital assets	Total
Cost, beginning of year	–	1,023	2,305	3,328
Adoption of IFRS 16 on January 1, 2019 [Note 2]	854	–	–	854
Business acquisitions and acquisition of assets [Note 3]	60	–	168	228
Additions	141	37	317	495
Modifications	(21)	–	–	(21)
Disposal/retirements	–	(10)	(32)	(42)
Changes in foreign exchange rates and other	12	(20)	(28)	(36)
Cost, end of year	1,046	1,030	2,730	4,806
Accumulated amortization, beginning of year	–	(187)	(1,274)	(1,461)
Amortization and impairment	(132)	(16)	(164)	(312)
Disposal/retirements	–	–	12	12
Changes in foreign exchange rates and other	(5)	1	22	18
Accumulated amortization, end of year	(137)	(202)	(1,404)	(1,743)
Carrying value, end of year	909	828	1,326	3,063

[1] Right-of-use assets include leased properties and leased capital assets.

	December 31, 2018		
	Owner-occupied properties	Capital assets	Total
Cost, beginning of year	981	2,140	3,121
Additions	35	292	327
Business disposals	–	(17)	(17)
Disposal/retirements	(19)	(122)	(141)
Changes in foreign exchange rates and other	26	12	38
Cost, end of year	1,023	2,305	3,328
Accumulated amortization, beginning of year	(163)	(1,224)	(1,387)
Amortization and impairment	(31)	(164)	(195)
Business disposals	–	16	16
Disposal/retirements	7	79	86
Changes in foreign exchange rates and other	–	19	19
Accumulated amortization, end of year	(187)	(1,274)	(1,461)
Carrying value, end of year	836	1,031	1,867

The following table provides the carrying value of owner-occupied properties and capital assets by geographic location:

	December 31, 2019	December 31, 2018
Canada	1,811	1,233
United States	966	416
Europe	286	218
	3,063	1,867

NOTE 10 Other Assets

	December 31, 2019	December 31, 2018
Premiums in course of collection, accounts receivable and interest receivable	6,355	5,617
Client funds on deposit	892	618
Deferred acquisition costs and deferred selling commissions	750	705
Pension benefits [Note 25]	231	148
Income taxes receivable	248	235
Trading account assets	1,092	843
Finance leases receivable	405	410
Prepaid expenses	195	225
Other	378	589
	10,546	9,390

Total Other assets of $8,998 million as at December 31, 2019 ($7,949 million as at December 31, 2018) are to be realized within 12 months. This amount excludes deferred acquisition costs and deferred selling commissions, the changes in which are presented below.

DEFERRED ACQUISITION COSTS AND DEFERRED SELLING COMMISSIONS

The changes in the carrying value of the deferred acquisition costs and deferred selling commissions are as follows:

	December 31, 2019	December 31, 2018
Balance, beginning of year	705	638
Additions	189	145
Disposals	(36)	(35)
Amortization	(75)	(61)
Changes in foreign exchange rates and other	(33)	18
Balance, end of year	750	705

NOTE 11 Goodwill and Intangible Assets

GOODWILL

The carrying value and changes in the carrying value of goodwill are as follows:

	December 31, 2019			December 31, 2018		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Balance, beginning of year	11,730	(1,307)	10,423	11,263	(1,178)	10,085
Business acquisitions	46	–	46	345	–	345
Business disposals	–	–	–	(45)	45	–
Impairment [1][2]	–	(66)	(66)	–	(81)	(81)
Changes in foreign exchange rates and other	(131)	52	(79)	167	(93)	74
Balance, end of year	11,645	(1,321)	10,324	11,730	(1,307)	10,423

[1] In 2019, $19 million of the goodwill in Lifeco's Financial Services CGU was impaired as a result of the reinsurance transaction with Protective Life (Note 3).

[2] In 2019, IntegraMed conducted its goodwill impairment test and determined that the carrying value of its CGU was higher than the recoverable amount, which resulted in IntegraMed recording in operating and administrative expenses an impairment charge of $47 million ($81 million in 2018).

INTANGIBLE ASSETS

The carrying value and changes in the carrying value of the intangible assets are as follows:

Indefinite life intangible assets

December 31, 2019	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,330	2,665	741	354	5,090
Business acquisitions	1	–	–	–	1
Changes in foreign exchange rates	(34)	(103)	–	–	(137)
Cost, end of year	1,297	2,562	741	354	4,954
Accumulated impairment, beginning of year	(140)	(1,101)	–	–	(1,241)
Changes in foreign exchange rates	7	50	–	–	57
Accumulated impairment, end of year	(133)	(1,051)	–	–	(1,184)
Carrying value, end of year	1,164	1,511	741	354	3,770

December 31, 2018	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,288	2,495	741	354	4,878
Changes in foreign exchange rates	42	170	–	–	212
Cost, end of year	1,330	2,665	741	354	5,090
Accumulated impairment, beginning of year	(132)	(1,019)	–	–	(1,151)
Changes in foreign exchange rates	(8)	(82)	–	–	(90)
Accumulated impairment, end of year	(140)	(1,101)	–	–	(1,241)
Carrying value, end of year	1,190	1,564	741	354	3,849

NOTE 11 Goodwill and Intangible Assets (continued)

Finite life intangible assets

December 31, 2019	Technology and software	Customer contract-related	Power purchase agreements	Other	Total
Cost, beginning of year	1,983	1,226	180	539	3,928
Business acquisitions and acquisition of assets [Note 3]	2	2	165	-	169
Additions	296	11	–	37	344
Disposal	(25)	-	–	(3)	(28)
Changes in foreign exchange rates	(56)	(29)	(1)	(10)	(96)
Other	–	-	–	(10)	(10)
Cost, end of year	2,200	1,210	344	553	4,307
Accumulated amortization, beginning of year	(1,152)	(603)	(39)	(196)	(1,990)
Amortization	(199)	(74)	(11)	(25)	(309)
Disposal	5	-	–	2	7
Changes in foreign exchange rates	41	12	–	5	58
Accumulated amortization, end of year	(1,305)	(665)	(50)	(214)	(2,234)
Carrying value, end of year	895	545	294	339	2,073

December 31, 2018	Technology and software	Customer contract-related	Power purchase agreements	Other	Total
Cost, beginning of year	1,668	1,121	193	477	3,459
Additions	290	66	–	48	404
Disposal	(24)	–	(4)	(12)	(40)
Changes in foreign exchange rates	73	39	–	5	117
Other	(24)	–	(9)	21	(12)
Cost, end of year	1,983	1,226	180	539	3,928
Accumulated amortization, beginning of year	(956)	(511)	(25)	(173)	(1,665)
Amortization	(182)	(68)	(10)	(28)	(288)
Disposal	17	–	–	10	27
Changes in foreign exchange rates	(50)	(24)	–	(4)	(78)
Other	19	–	(4)	(1)	14
Accumulated amortization, end of year	(1,152)	(603)	(39)	(196)	(1,990)
Carrying value, end of year	831	623	141	343	1,938

NOTE 11 Goodwill and Intangible Assets (continued)

ALLOCATION TO CASH GENERATING UNITS

Goodwill and indefinite life intangible assets have been assigned to CGUs as follows:

	December 31, 2019			December 31, 2018		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
Lifeco						
Canada						
Group Customer	1,632	354	1,986	1,621	354	1,975
Individual Customer	2,808	619	3,427	2,791	619	3,410
Europe						
Insurance and Annuities	2,345	223	2,568	2,388	233	2,621
United States						
Financial Services	180	–	180	208	–	208
Asset Management	–	1,508	1,508	–	1,578	1,578
IGM						
IG Wealth Management	1,443	–	1,443	1,443	–	1,443
Mackenzie	1,251	1,003	2,254	1,251	1,003	2,254
Corporate	143	23	166	143	23	166
Other	522	40	562	578	39	617
	10,324	3,770	14,094	10,423	3,849	14,272

RECOVERABLE AMOUNT

Lifeco

For purposes of annual impairment testing, Lifeco allocates goodwill and indefinite life intangible assets to its CGUs. Any potential impairment of goodwill or indefinite life intangible assets is identified by comparing the recoverable amount to its carrying value. Recoverable amount is based on fair value less cost of disposal.

Fair value is initially assessed with reference to valuation multiples of comparable publicly traded financial institutions and previous business acquisition transactions. These valuation multiples may include price-to-earnings or price-to-book measures for life insurers and asset managers. This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs.

In the fourth quarter of 2019, Lifeco conducted its annual impairment testing of goodwill and indefinite life intangible assets based on the September 30, 2019 asset balances. It was determined that the recoverable amounts of CGUs were in excess of their carrying values and there was no evidence of significant impairment.

Any reasonable changes in assumptions and estimates used in determining the recoverable amounts of the CGUs are unlikely to cause the carrying values to exceed their recoverable amounts.

NOTE 11 Goodwill and Intangible Assets (continued)

IGM Financial

IGM tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of IGM's CGUs is based on the best available evidence of fair value less cost of disposal. Fair value is initially assessed with reference to valuation multiples of comparable publicly traded financial institutions and previous business acquisition transactions. These valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs.

The fair value less cost of disposal of IGM's CGUs was compared with the carrying amount and it was determined there was no impairment. Changes in assumptions and estimates used in determining the recoverable amounts of the CGUs can result in significant adjustments to the valuation of the CGUs.

NOTE 12 Segregated Funds and Other Structured Entities

Lifeco offers segregated fund products in Canada, the U.S. and Europe that are referred to as segregated funds, separate accounts and unit-linked funds in the respective markets. These funds are contracts issued by insurers to segregated fund policyholders where the benefit is directly linked to the performance of the investments, the risks or rewards of the fair value movements and net investment income is realized by the segregated fund policyholders. The segregated fund policyholders are required to select the segregated funds that hold a range of underlying investments. While Lifeco has legal title to the investments, there is a contractual obligation to pass along the investment results to the segregated fund policyholder and Lifeco segregates these investments from those of the corporation itself.

In Canada and the U.S., the segregated fund and separate account assets are legally separated from the general assets of Lifeco under the terms of the policyholder agreement and cannot be used to settle obligations of Lifeco. In Europe, the assets of the funds are functionally and constructively segregated from those of Lifeco. As a result of the legal and constructive arrangements of these funds, the assets and liabilities of these funds are presented as investments on account of segregated fund policyholders and with an equal liability titled insurance and investment contracts on account of segregated fund policyholders in the balance sheets.

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, Lifeco has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are $1,147 million at December 31, 2019 ($864 million at December 31, 2018).

Within the statements of earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the balance sheets. As these amounts do not directly impact the revenues and expenses of Lifeco, these amounts are not included separately in the statements of earnings.

NOTE 12 Segregated Funds and Other Structured Entities (continued)

SEGREGATED FUNDS AND GUARANTEE EXPOSURE

Lifeco offers retail segregated fund products, unitized with profits products and variable annuity products that provide for certain guarantees that are tied to the fair values of the investment funds. While these products are similar to mutual funds, there is a key difference from mutual funds as the segregated funds have certain guarantee features that protect the segregated fund policyholder from market declines in the underlying investments. These guarantees are Lifeco's primary exposure on these funds. Lifeco accounts for these guarantees within insurance and investment contract liabilities in the financial statements. In addition to Lifeco's exposure on the guarantees, the fees earned by Lifeco on these products are impacted by the fair value of these funds.

In Canada, Lifeco offers retail segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits and guaranteed minimum accumulation on maturity benefits.

In the U.S., Lifeco offers group variable annuities with guaranteed minimum death benefits and guaranteed minimum withdrawal benefits through Great-West Life & Annuity. For the standalone guaranteed minimum death benefits business, most are a return of premium on death with the guarantee expiring at age 70.

In Europe, Lifeco offers unitized with profits products through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products, but include pooling of policyholders' funds and minimum credited interest rates.

Lifeco also offers guaranteed minimum withdrawal benefits products in Canada, the U.S. and Germany, and previously offered guaranteed minimum withdrawal benefits products in Ireland. Certain guaranteed minimum withdrawal benefits products offered by Lifeco offer levels of death and maturity guarantees. At December 31, 2019, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was $3,332 million ($4,169 million at December 31, 2018). The decrease was primarily due to U.S. business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019.

The following presents further details of the investments, determined in accordance with the relevant statutory reporting requirements of each region of Lifeco's operations, on account of segregated fund policyholders:

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	December 31, 2019	December 31, 2018
Cash and cash equivalents	12,501	13,458
Bonds	44,973	42,142
Mortgage loans	2,670	2,746
Shares and units in unit trusts	104,330	89,853
Mutual funds	55,779	50,956
Investment properties	12,986	12,319
	233,239	211,474
Accrued income	373	380
Other liabilities	(3,737)	(3,191)
Non-controlling mutual fund interest	1,147	864
	231,022	209,527

NOTE 12 Segregated Funds and Other Structured Entities (continued)

INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	Years ended December 31,	
	2019	2018
Balance, beginning of year	209,527	217,357
Additions (deductions):		
Policyholder deposits	24,685	24,475
Net investment income	3,331	3,611
Net realized capital gains on investments	4,265	4,876
Net unrealized capital gains (losses) on investments	19,658	(16,757)
Unrealized gains (losses) due to changes in foreign exchange rates	(6,539)	5,472
Policyholder withdrawals	(24,721)	(26,271)
Business acquisition	–	950
Segregated fund investment in General Fund	(4)	69
General Fund investment in segregated fund	105	(219)
Net transfer from General Fund	23	21
Non-controlling mutual fund interest	283	(738)
Transfer from assets held for sale	409	–
Assets held for sale [Note 4]	–	(3,319)
	21,495	(7,830)
Balance, end of year	231,022	209,527

INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	Years ended December 31,	
	2019	2018
Net investment income	3,331	3,611
Net realized capital gains on investments	4,265	4,876
Net unrealized capital gains (losses) on investments	19,658	(16,757)
Unrealized gains (losses) due to changes in foreign exchange rates	(6,539)	5,472
Total	20,715	(2,798)
Change in insurance and investment contract liabilities on account of segregated fund policyholders	20,715	(2,798)
Net	–	–

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS (by fair value hierarchy level)

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [1]	146,861	73,173	13,988	234,022

[1] Excludes other liabilities, net of other assets, of $3,000 million.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [1]	131,603	67,199	13,235	212,037
Investments on account of segregated fund policyholders held for sale [2]	3,297	5	9	3,311
Total investments on account of segregated fund policyholders measured at fair value	134,900	67,204	13,244	215,348

[1] Excludes other liabilities, net of other assets, of $2,510 million.

[2] Excludes other assets, net of other liabilities, of $8 million.

In 2019 certain foreign equity holdings valued at $153 million were transferred from Level 1 to Level 2 ($1,842 million were transferred from Level 2 to Level 1 at December 31, 2018), primarily based on Lifeco's change in use of inputs in addition to quoted prices in active markets for certain foreign equity holdings at year-end. Level 2 assets include those assets where fair value is not available from normal market pricing sources where inputs are utilized in addition to quoted prices in active markets and where Lifeco does not have access to the underlying asset details within an investment fund.

NOTE 12 Segregated Funds and Other Structured Entities (continued)

As at December 31, 2019, $8,471 million ($7,770 million at December 31, 2018) of the segregated funds were invested in funds managed by IG Wealth Management and Mackenzie Investments, subsidiaries of IGM and related parties.

The following table presents additional information about Lifeco's investments on account of segregated fund policyholders for which Lifeco has utilized Level 3 inputs to determine fair value:

			December 31, 2019			December 31, 2018
	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total
Balance, beginning of year						
As previously reported	13,235	9	13,244	12,572	–	12,572
Change in accounting policy [1]	136	–	136	–	–	–
Restated balance, beginning of year	13,371	9	13,380	12,572	–	12,572
Total gains (losses) included in segregated fund investment income	141	(1)	140	404	–	404
Purchases	760	–	760	651	–	651
Sales	(284)	(8)	(292)	(425)	–	(425)
Transfers into Level 3	–	–	–	51	–	51
Transfers out of Level 3	–	–	–	(9)	–	(9)
Transfers to assets held for sale	–	–	–	(9)	9	–
Balance, end of year	13,988	–	13,988	13,235	9	13,244

[1] The segregated funds adopted IFRS 16, which resulted in equal and offsetting right-of-use assets and lease liabilities of $136 million being recorded in investment properties and other liabilities within investments on account of segregated fund policyholders as of January 1, 2019. The adoption of IFRS 16 had no net impact on investments on account of segregated fund policyholders as of January 1, 2019.

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

In addition to the segregated funds, Lifeco has interests in a number of structured unconsolidated entities including mutual funds, open-ended investment companies, and unit trusts. These entities are created as investment strategies for its unit holders based on the directive of each individual fund.

Some of these funds are managed by related parties of Lifeco and Lifeco receives management fees related to these services. Management fees can be variable due to the performance of factors, such as markets or industries, in which the fund invests. Fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management, which is affected by prevailing market conditions, and the inflow and outflow of client assets.

Factors that could cause assets under management and fees to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue.

Fee income earned by Lifeco resulting from Lifeco's interests in segregated funds and other structured entities was $4,919 million for the year ended December 31, 2019 ($4,786 million in 2018).

Included within other assets (Note 10) at December 31, 2019 is $957 million ($733 million at December 31, 2018) of investments by Lifeco in bonds and shares of Putnam-sponsored funds and $135 million ($110 million at December 31, 2018) of investments in shares of sponsored unit trusts in Europe.

NOTE 13 Insurance and Investment Contract Liabilities

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

	December 31, 2019			December 31, 2018		
	Gross liability	Reinsurance [1] assets	Net	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	174,521	20,580	153,941	166,720	6,126	160,594
Investment contract liabilities	1,656	127	1,529	1,711	–	1,711
	176,177	20,707	155,470	168,431	6,126	162,305

[1] Includes reinsurance assets recognized upon the completion of the reinsurance transaction with Protective Life (Note 3).

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of insurance and investment contract liabilities of Lifeco is as follows:

	December 31, 2019			December 31, 2018		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Participating						
Canada	42,271	(247)	42,518	38,078	(351)	38,429
United States	11,329	12	11,317	11,871	14	11,857
Europe	1,019	–	1,019	978	–	978
Non-participating						
Canada	32,668	498	32,170	30,174	500	29,674
United States	32,360	15,091	17,269	31,042	271	30,771
Europe	56,530	5,353	51,177	56,288	5,692	50,596
	176,177	20,707	155,470	168,431	6,126	162,305

The composition of the assets supporting liabilities and equity of Lifeco is as follows:

December 31, 2019	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
Canada	19,484	9,655	6,142	2,472	4,518	42,271
United States	5,128	626	–	–	5,575	11,329
Europe	716	20	63	12	208	1,019
Non-participating liabilities						
Canada	20,270	4,111	2,237	407	5,643	32,668
United States	14,311	2,678	–	–	15,371	32,360
Europe	35,546	5,442	299	2,672	12,571	56,530
Other, including segregated funds	15,630	902	902	119	231,894	249,447
Total equity	3,943	834	732	205	19,829	25,543
Total carrying value	115,028	24,268	10,375	5,887	295,609	451,167
Fair value	117,000	25,146	10,367	5,887	295,609	454,009

December 31, 2018	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
Canada	18,044	9,145	5,397	1,908	3,584	38,078
United States	5,140	749	–	–	5,982	11,871
Europe	708	24	68	18	160	978
Non-participating liabilities						
Canada	19,204	3,845	1,916	196	5,013	30,174
United States	25,324	4,993	–	–	725	31,042
Europe	35,174	4,511	191	2,795	13,617	56,288
Other, including segregated funds	15,504	1,038	940	99	214,279	231,860
Total equity	5,764	709	778	202	19,945	27,398
Total carrying value	124,862	25,014	9,290	5,218	263,305	427,689
Fair value	125,759	25,411	9,229	5,218	263,305	428,922

NOTE 13 Insurance and Investment Contract Liabilities (continued)

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

CHANGE IN INSURANCE CONTRACT LIABILITIES

The change in insurance contract liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	Participating			Non-participating			
December 31, 2019	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
Balance, beginning of year	50,927	(337)	51,264	115,793	6,463	109,330	160,594
Impact of new business	59	–	59	5,339	(266)	5,605	5,664
Normal change in in-force business	4,138	25	4,113	1,784	645	1,139	5,252
Management actions and changes in assumptions	67	77	(10)	(117)	(73)	(44)	(54)
Business movement from/to external parties	–	–	–	(176)	14,802	(14,978)	(14,978)
Impact of foreign exchange rate changes	(572)	–	(572)	(2,721)	(756)	(1,965)	(2,537)
Balance, end of year	54,619	(235)	54,854	119,902	20,815	99,087	153,941

	Participating			Non-participating			
December 31, 2018	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
Balance, beginning of year	48,856	(341)	49,197	110,668	5,386	105,282	154,479
Impact of new business	24	–	24	6,680	169	6,511	6,535
Normal change in in-force business	1,413	7	1,406	(6,553)	(243)	(6,310)	(4,904)
Management actions and changes in assumptions	(29)	(5)	(24)	(700)	25	(725)	(749)
Business movement from/to external parties	–	–	–	(134)	(2)	(132)	(132)
Retirement Advantage acquisition	–	–	–	2,572	931	1,641	1,641
Transfer of liabilities to held for sale [Note 4]	(281)	–	(281)	(589)	–	(589)	(870)
Impact of foreign exchange rate changes	944	2	942	3,849	197	3,652	4,594
Balance, end of year	50,927	(337)	51,264	115,793	6,463	109,330	160,594

Under IFRS, movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in the in-force business above.

2019

In July 2019, the Canadian Actuarial Standards Board published revised standards for the valuation of insurance contract liabilities, with an effective date of October 15, 2019. The revised standards include decreases to ultimate reinvestment rates and revised calibration criteria for stochastic risk-free interest rates.

In 2019, the major contributor to the decrease in net insurance contract liabilities was the business movement to external parties of $14,978 million, which includes the transfer to Protective Life, and the net impact of foreign exchange rate changes of $2,537 million. This was partially offset by increases due to the impact of new business of $5,664 million, and normal change in the in-force business of $5,252 million.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

Net non-participating insurance contract liabilities decreased by $44 million in 2019 due to management actions and assumption changes including a $241 million decrease in Europe and Reinsurance, partially offset by a $145 million increase in Canada and a $52 million increase in the United States.

The increase in Canada was primarily due to updated policyholder behaviour assumptions of $254 million, and updated longevity assumptions of $54 million partially offset by decreases due to updated morbidity assumptions of $169 million and updated economic assumptions of $6 million, which includes the net impact of new standards.

The decrease in Europe was primarily due to updated longevity assumptions of $299 million, and updated economic assumptions of $101 million, which includes the net impact of new standards, partially offset by increases due to updated life mortality assumptions of $80 million, and updated expenses and tax assumptions of $59 million.

The increase in the United States was primarily due to updated expenses and tax assumptions of $45 million, and updated life mortality assumptions of $43 million partially offset by decreases due to updated economic assumptions of $34 million, which includes the net impact of new standards.

Net participating insurance contract liabilities decreased by $10 million in 2019 due to management actions and assumption changes. The decrease was primarily due to updated provisions for future policyholder dividends of $2,232 million, updated expenses and tax assumptions of $535 million, and modelling refinements of $198 million. This was partially offset by increases due to updated economic assumptions of $1,884 million, updated policyholder behaviour assumptions of $935 million and updated life mortality assumptions of $153 million.

2018

In 2018, the major contributors to the increase in net insurance contract liabilities were the impact of new business of $6,535 million, the acquisition of Retirement Advantage of $1,641 million and the net impact of foreign exchange rate changes of $4,594 million. This was partially offset by the decrease due to normal change in the in-force business of $4,904 million, the transfer of U.K. heritage business to Scottish Friendly of $870 million and management actions and changes in assumptions of $749 million.

Net non-participating insurance contract liabilities decreased by $725 million in 2018 due to Lifeco's management actions and assumption changes including a $562 million decrease in Europe and Reinsurance, a $107 million decrease in Canada and a $56 million decrease in the United States.

The decrease in Canada was primarily due to updated economic assumptions of $197 million, updated provision for claims of $19 million and updated provision for experience rating refunds of $10 million, partially offset by increases due to updated morbidity assumptions of $62 million, updated policyholder behaviour assumptions of $46 million and updated life mortality assumptions of $10 million.

The decrease in Europe was primarily due to updated longevity assumptions of $372 million, updated life mortality assumptions of $129 million, modelling refinements of $41 million, updated economic assumptions of $39 million, updated morbidity assumptions of $25 million, and updated expense and tax assumptions of $21 million, partially offset by increases due to updated policyholder behaviour assumptions of $65 million.

The decrease in the United States was primarily due to updated policyholder behaviour assumptions of $63 million, updated life mortality assumptions of $16 million and updated longevity assumptions of $15 million, partially offset by increases due to modelling refinements of $21 million and updated economic assumptions of $13 million.

Net participating insurance contract liabilities decreased by $24 million in 2018 due to Lifeco's management actions and assumption changes. The decrease was primarily due to modelling refinements of $229 million, expense and tax assumptions of $133 million and updated life mortality assumptions of $5 million, partially offset by increases due to updated provisions for future policyholder dividends of $232 million, lower investment returns of $101 million and updated policyholder behaviour assumptions of $8 million.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

			December 31, 2019	December 31, 2018
	Gross liability	Reinsurance assets	Net	Net
Balance, beginning of year	1,711	-	1,711	1,841
Normal change in in-force business	(87)	38	(125)	(190)
Investment experience	103	(23)	126	(26)
Management actions and changes in assumptions	(4)	-	(4)	15
Business movement from/to external parties	-	116	(116)	-
Transfer of liabilities to held for sale [Note 4]	-	-	-	(27)
Impact of foreign exchange rate changes	(67)	(4)	(63)	98
Balance, end of year	1,656	127	1,529	1,711

The carrying value of investment contract liabilities approximates their fair value. No investment contract liabilities were reinsured in 2018.

GROSS PREMIUM INCOME

	December 31, 2019	December 31, 2018
Direct premiums	25,398	26,062
Assumed reinsurance premiums	17,847	13,901
Total	43,245	39,963

GROSS POLICYHOLDER BENEFITS

	December 31, 2019	December 31, 2018
Direct	19,643	17,830
Assumed reinsurance	18,126	14,527
Total	37,769	32,357

ACTUARIAL ASSUMPTIONS

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

The methods for arriving at these valuation assumptions are outlined below:

Actuarial assumptions	Methods
Mortality	A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Improvement scales for life insurance and annuitant mortality are updated periodically based on population and industry studies, product-specific considerations, as well as professional guidance. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. Annuitant mortality is also studied regularly and the results are used to modify established industry experience annuitant mortality tables.
Morbidity	Lifeco uses industry-developed experience tables modified to reflect emerging Lifeco experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.
Property and casualty reinsurance	Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.
Investment returns	The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 22).
Expenses	Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the CALM as inflation is assumed to be correlated with new money interest rates.
Policy termination	Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco's most significant exposures are in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of term for renewable term policies in Canada and Reinsurance. Industry experience has guided Lifeco's assumptions for these products as Lifeco's own experience is very limited.
Utilization of elective policy options	There are a wide range of elective options embedded in the policies issued by Lifeco. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on Lifeco or industry experience when it exists and, when not, on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.
Policyholder dividends and adjustable policy features	Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is Lifeco's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability on shareholders' earnings is reflected in the changes in best estimate assumptions above.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

RISK MANAGEMENT

Insurance risk

Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions, including mortality, persistency, longevity, morbidity, expense variations and investment returns.

Lifeco is in the business of accepting risk associated with insurance contract liabilities. Lifeco's objective is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of its underwriting strategy guidelines, and through the use of reinsurance arrangements.

The following table provides information about Lifeco's insurance contract liabilities' sensitivities to its management's best estimate of the approximate impact as a result of changes in assumptions used to determine Lifeco's liability associated with these contracts.

	Increase (decrease) in net earnings	
	2019	2018
Mortality – 2% increase	(279)	(270)
Annuitant mortality – 2% decrease	(601)	(457)
Morbidity – 5% adverse change	(253)	(271)
Investment returns		
Parallel shift in yield curve		
1% increase	–	–
1% decrease	–	–
Change in interest rates		
1% increase	175	115
1% decrease	(619)	(465)
Change in equity markets		
10% increase	87	73
10% decrease	(129)	(266)
Change in best estimate return assumptions for equities		
1% increase	509	476
1% decrease	(585)	(539)
Expenses – 5% increase	(125)	(128)
Policy termination and renewal – 10% adverse change	(813)	(649)

Concentration risk may arise from geographic regions, accumulation of risks and market risk. The concentration of insurance risk before and after reinsurance by geographic region is described below.

	December 31, 2019			December 31, 2018		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Canada	74,939	251	74,688	68,252	149	68,103
United States	43,689	15,103	28,586	42,913	285	42,628
Europe	57,549	5,353	52,196	57,266	5,692	51,574
	176,177	20,707	155,470	168,431	6,126	162,305

Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds-withheld basis where Lifeco retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

NOTE 14 Obligations to Securitization Entities

IGM securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC)-sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as IGM retains prepayment risk and certain elements of credit risk. Accordingly, IGM has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as obligations to securitization entities which are carried at amortized cost.

IGM earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, IGM enters into a swap transaction whereby IGM pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of $1 million at December 31, 2019 (a positive fair value of $5 million in 2018).

Under the NHA MBS and CMB Programs, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, IGM has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP trusts have no recourse to IGM's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

	December 31, 2019			December 31, 2018		
	Securitized mortgages	Obligations to securitization entities	Net	Securitized mortgages	Obligations to securitization entities	Net
Carrying value						
NHA MBS and CMB Programs	3,891	3,939	(48)	4,247	4,251	(4)
Bank-sponsored ABCP	2,939	2,975	(36)	3,102	3,119	(17)
Total	6,830	6,914	(84)	7,349	7,370	(21)
Fair value	6,908	6,997	(89)	7,405	7,437	(32)

The carrying value of obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation using an effective interest method.

NOTE 15 Debentures and Other Debt Instruments

	December 31, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
DEBENTURES				
Power Corporation				
8.57% debentures due April 22, 2039, unsecured	150	247	150	231
4.81% debentures due January 31, 2047, unsecured	248	292	248	263
4.455% debentures due July 27, 2048, unsecured	248	280	248	250
Power Financial				
6.90% debentures due March 11, 2033, unsecured	250	343	250	327
Lifeco				
4.65% debentures due August 13, 2020, unsecured	500	508	500	516
2.50% debentures due April 18, 2023 (€500 million), unsecured	728	788	778	837
1.75% debentures due December 7, 2026 (€500 million), unsecured	725	785	774	781
3.337% debentures due February 28, 2028, unsecured	498	526	497	502
6.40% subordinated debentures due December 11, 2028, unsecured	100	128	100	126
6.74% debentures due November 24, 2031, unsecured	194	278	194	261
6.67% debentures due March 21, 2033, unsecured	393	557	393	522
6.625% deferrable debentures due November 15, 2034 (US$175 million), unsecured (redeemed during 2019)	–	–	235	266
5.998% debentures due November 16, 2039, unsecured	342	487	342	442
7.529% capital trust debentures due June 30, 2052 (face value of $150 million), unsecured	159	221	159	209
IGM Financial				
3.44% debentures due January 26, 2027, unsecured	400	413	400	397
6.65% debentures due December 13, 2027, unsecured	125	155	125	153
7.45% debentures due May 9, 2031, unsecured	150	205	150	197
7.00% debentures due December 31, 2032, unsecured	175	236	175	226
7.11% debentures due March 7, 2033, unsecured	150	204	150	195
6.00% debentures due December 10, 2040, unsecured	200	264	200	244
4.56% debentures due January 25, 2047, unsecured	200	227	200	206
4.115% debentures due December 9, 2047, unsecured	250	265	250	239
4.174% debentures due July 13, 2048, unsecured	200	214	200	193
4.206% debentures due March 21, 2050, unsecured	250	271	–	–
Debentures of IGM held by Lifeco as investments	(101)	(119)	(86)	(97)
Total debentures	6,534	7,775	6,632	7,486
OTHER DEBT INSTRUMENTS				
Power Corporation				
Revolving credit facility with interest equal to LIBOR plus 0.65%, unsecured	37	37	–	–
Lifeco				
Commercial paper and other short-term debt instruments with interest rates from 1.828% to 2.089% (2.511% to 2.693% at December 31, 2018), unsecured	130	130	135	135
Revolving credit facility with interest equal to LIBOR plus 0.70% (US$230 million)(US$250 million at December 31, 2018), unsecured	299	299	340	340
Senior notes due May 17, 2028, bearing an interest rate of 4.047% (US$300 million), unsecured	388	430	405	415
Senior notes due June 3, 2047, bearing an interest rate of 4.15% (US$700 million), unsecured	894	993	934	888
Senior notes due May 17, 2048, bearing an interest rate of 4.581% (US$500 million), unsecured	643	749	673	685

NOTE 15 Debentures and Other Debt Instruments (continued)

	December 31, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
OTHER DEBT INSTRUMENTS (continued)				
Other subsidiaries				
Revolving credit facilities up to US$100 million, with interest equal to LIBOR plus 1.5%, secured [1]	–	–	47	47
Revolving credit facility up to $40 million with interest equal to prime rate plus 1.25% to 3.75%, secured [1]	28	28	25	25
Term loans due January 17, 2020 and revolving facilities, bearing interest at various rates from 9.25% to 15% (US$91 million)(US$96 million at December 31, 2018), secured [1]	118	118	131	131
Term loan facilities due in June and December 2022, bearing interest at various floating rates (an effective rate from 6.38% to 10.09%), secured [1]	129	129	137	137
Mezzanine loans due from January 2, 2035 to June 30, 2035, bearing interest at various rates from 7.36% to 7.5%, secured [1]	102	106	104	106
Project debt				
Construction loan facility up to US$75 million, due December 23, 2021(US$18 million), with interest equal to 6.25%, secured [1]	20	20	–	–
Loan facilities due from March 31, 2024 to December 15, 2037, bearing interest at various rates from 3.33% to 6.00%, secured [1]	466	480	367	378
Loan facilities due from June 2025 to June 2036, bearing interest at various rates from 4.82% to 5.00% (US$69 million)(US$22 million at December 31, 2018), secured [1]	87	90	28	31
Loan facilities due August 31, 2035, bearing interest at various rates from 4.7% to 4.72%, secured [1]	25	27	–	–
Loan facilities due March 15, 2036, bearing interest at a rate of 4.40% (US$23 million), secured [1]	30	32	–	–
Other various debt instruments, secured [1]	8	8	19	19
Total other debt instruments	3,404	3,676	3,345	3,337
	9,938	11,451	9,977	10,823

[1] Secured by the assets of Other subsidiaries; the debt instruments are non-recourse to the Corporation.

POWER CORPORATION

On July 25, 2018, the Corporation issued $250 million of 4.455% debentures maturing July 27, 2048. Interest on the debentures is payable semi-annually in arrears on January 27 and July 27, commencing January 27, 2019 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to January 27, 2048 in whole or in part at the greater of the Canada Yield Price and par, and on or after January 27, 2048 in whole or in part at par, together in each case with accrued and unpaid interest. On September 6, 2018, the net proceeds were used by the Corporation to fund the early redemption of all of its $250 million 7.57% debentures due April 22, 2019. A premium of $7 million was paid on the early redemption and was recognized within financing charges in the statements of earnings.

LIFECO

On December 10, 2019, Great-West Life & Annuity Insurance Capital, LP redeemed all $232 million (US$175 million) aggregate principal amount 6.625% deferrable debentures due November 15, 2034 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest up to but excluding the redemption date.

On February 28, 2018, Lifeco issued $500 million of 10-year 3.337% debentures at par, maturing on February 28, 2028. Interest on the debentures is payable semi-annually in arrears on February 28 and August 28, commencing August 28, 2018 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to November 28, 2027 in whole or in part at the greater of the Canada Yield Price and par, and on or after November 28, 2027 in whole or in part at par, together in each case with accrued and unpaid interest.

On May 17, 2018, Great-West Lifeco Finance 2018, LP issued $384 million (US$300 million) 4.047% senior notes due May 17, 2028 and $640 million (US$500 million) 4.581% senior notes due May 17, 2048. The tranches of senior notes are fully and unconditionally guaranteed by Lifeco.

NOTE 15 Debentures and Other Debt Instruments (continued)

Capital Trust Debentures

Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $150 million of Canada Life Capital Securities – Series B (CLiCS – Series B), the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $150 million.

Distributions and interest on the capital trust debentures are classified as financing charges in the statements of earnings (Note 24). The fair value for capital trust securities is determined by the bid-ask price.

Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time.

IGM FINANCIAL

On March 20, 2019, IGM issued $250 million of 4.206% debentures maturing March 21, 2050. The net proceeds were used by IGM to fund the redemption, on April 30, 2019, of its issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B for $150 million, and for general corporate purposes.

On March 7, 2018, IGM's 6.58% $150 million debentures matured at their principal amount together with accrued interest.

On July 11, 2018, IGM issued $200 million of 4.174% debentures maturing July 13, 2048. Interest on debentures is payable semi-annually in arrears on January 13 and July 13, commencing January 13, 2019, until the date on which the debentures are repaid. The debentures are redeemable at any time prior to January 13, 2048 in whole or in part at the greater of the Canada Yield Price and par, and on or after January 13, 2048 in whole or in part at par, together in each case with accrued and unpaid interest. On August 10, 2018, the net proceeds were used by IGM, together with a portion of its existing internal cash resources, to fund the early redemption of all of its $375 million 7.35% debentures due April 8, 2019. A premium of $11 million was paid on the early redemption and was recognized within financing charges in the statements of earnings.

SUBSEQUENT EVENT

Other Subsidiaries

On February 10, 2020, a wholly owned subsidiary of the Corporation entered into a $254 million non-recourse hybrid construction and term loan facility with floating and fixed rates. Both components will convert to terms with maturities from 7 years to 25 years after commercial operation.

CHANGES IN DEBENTURES AND OTHER DEBT INSTRUMENTS

The table below details changes in the Corporation's debentures and other debt instruments arising from financing activities, including both cash and non-cash changes.

	December 31, 2019	December 31, 2018
Balance, beginning of the year	9,977	9,511
Acquisitions [Note 3]	153	–
Issue of debentures and senior notes	250	1,962
Redemption of debentures	(232)	(1,871)
Increase in other debt instruments	146	167
Decrease in other debt instruments	(121)	(38)
Changes in foreign exchange rates and other	(235)	246
Balance, end of year	9,938	9,977

The principal repayments on debentures and other debt instruments in each of the next five years and thereafter are as follows:

2020	1,164
2021	72
2022	150
2023	772
2024	43
Thereafter	7,798

NOTE 16 Other Liabilities

	December 31, 2019	December 31, 2018
Accounts payable	3,976	3,816
Bank overdraft	379	457
Dividends and interest payable	468	294
Income taxes payable	468	500
Deferred income reserves	380	441
Deposits and certificates	886	622
Funds held under reinsurance contracts	1,433	1,367
Pension and other post-employment benefits [Note 25]	2,177	1,931
Lease liabilities	1,022	–
Limited-life fund units	358	150
Other	2,160	1,966
	13,707	11,544

Total Other liabilities of $8,291 million as at December 31, 2019 ($7,552 million as at December 31, 2018) are expected to be settled within 12 months.

LEASE LIABILITIES

The table below details changes in the Corporation's lease liabilities for the year ended December 31, 2019.

	December 31, 2019
Initial lease liabilities, January 1, 2019 [Note 2]	951
Additions	168
Business acquisitions and acquisition of assets [Note 3]	45
Modifications	(22)
Lease payments	(140)
Interest	41
Change in foreign exchange rates and other	(21)
Lease liabilities, end of year	1,022

The table below presents the contractual undiscounted cash flows for lease obligations in each of the next five years and thereafter:

2020	163
2021	146
2022	126
2023	105
2024	96
Thereafter	683
Total undiscounted lease liabilities at December 31, 2019	1,319

NOTE 17 Income Taxes

INCOME TAXES

The components of income tax expense recognized in the statements of earnings are:

	Years ended December 31,	
	2019	2018
Current taxes	356	546
Deferred taxes		
Origination and reversal of temporary differences	(13)	31
Tax expense arising from unrecognized tax losses and tax credits	222	16
Effect of change in tax rates or imposition of new taxes and other	(11)	(15)
	198	32
	554	578

The following table shows current and deferred taxes relating to items not recognized in the statements of earnings:

	December 31, 2019		December 31, 2018	
	Other comprehensive income	Equity	Other comprehensive income	Equity
Current taxes (recovery)	4	78	(2)	–
Deferred taxes (recovery)	(21)	20	(40)	(16)
	(17)	98	(42)	(16)

EFFECTIVE INCOME TAX RATE

The Corporation's effective income tax rate is derived as follows:

	Years ended December 31,	
	2019	2018
	%	%
Combined statutory Canadian federal and provincial tax rates	26.6	26.7
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(5.2)	(5.9)
Lower effective tax rates on income not subject to tax in Canada	(8.8)	(7.7)
Share of earnings of investments in jointly controlled corporations and associates	(1.5)	(0.6)
Impact of rate changes on deferred taxes	(0.3)	–
Other [1]	4.6	1.8
Effective income tax rate	15.4	14.3

[1] Includes the impact of a decrease in the recognized deferred income tax asset of one of Lifeco's subsidiaries due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses which resulted in a $199 million charge and increased the effective income tax rate by 5.5%. This was partially offset by a $101 million benefit due to the resolution of an outstanding issue with a foreign tax authority which reduced the effective income tax rate by 2.8%.

NOTE 17 Income Taxes (continued)

DEFERRED TAXES

Composition and changes in net deferred taxes are as follows:

For the year ended December 31, 2019	Insurance and investment contract liabilities	Investments	Loss carry forwards	Intangible assets	Defined benefit plans	Tax credits and other	Total
Balance, beginning of year	(1,387)	(387)	1,468	(876)	372	313	(497)
Recognized in statements of earnings	362	(180)	(260)	(40)	(18)	(62)	(198)
Recognized in statements of comprehensive income	–	(28)	–	–	55	(6)	21
Recognized in statements of changes in equity	(20)	–	–	–	–	–	(20)
Business acquisitions	–	–	–	(1)	–	–	(1)
Foreign exchange rate changes and other	62	21	(48)	16	(15)	(36)	–
Balance, end of year	(983)	(574)	1,160	(901)	394	209	(695)

For the year ended December 31, 2018	Insurance and investment contract liabilities	Investments	Loss carry forwards	Intangible assets	Defined benefit plans	Tax credits and other	Total
Balance, beginning of year	(976)	(662)	1,241	(803)	394	249	(557)
Recognized in statements of earnings	(395)	257	144	(58)	(30)	50	(32)
Recognized in statements of comprehensive income	–	42	–	–	(4)	2	40
Recognized in statements of changes in equity	9	–	–	–	–	7	16
Business acquisitions	41	–	–	–	–	(8)	33
Foreign exchange rate changes and other	(66)	(24)	83	(15)	12	13	3
Balance, end of year	(1,387)	(387)	1,468	(876)	372	313	(497)

	December 31, 2019	December 31, 2018
Presented on the balance sheets as follows:		
Deferred tax assets	802	1,098
Deferred tax liabilities	(1,497)	(1,595)
	(695)	(497)

Management of the Corporation and of its subsidiaries assess the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2019 are recoverable.

At December 31, 2019, a deferred tax asset of $1,065 million ($1,357 million at December 31, 2018) is recognized by Lifeco on tax loss carry forwards totalling $6,832 million ($8,568 million in 2018). Of this amount, $5,814 million expires between 2020 and 2039, while $1,018 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

A subsidiary of Lifeco has had a history of losses. The subsidiary has a net deferred tax asset balance of $478 million (US$367 million) as at December 31, 2019 composed principally of net operating losses and future deductions related to goodwill. During the year ended December 31, 2019, management of Lifeco determined that a $199 million (US$151 million) decrease in the recognized deferred income tax asset is appropriate due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses generated in the earliest loss years. The deferred income tax asset decrease resulted in a charge to income tax expense of $199 million (US$151 million) in the statement of earnings. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income to utilize the unused United States losses and deductions for which a deferred tax asset has been recognized.

NOTE 17 Income Taxes (continued)

As at December 31, 2019, the Corporation and its subsidiaries have non-capital losses of $2,297 million ($1,012 million in 2018) available to reduce future taxable income for which the benefits have not been recognized. Of this amount, $2,220 million expires from 2020 to 2039, while $77 million has no expiry date. In addition, the Corporation and its subsidiaries have capital loss carry forwards of $300 million ($307 million in 2018) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

As at December 31, 2019, the Corporation and its subsidiaries have deductible temporary differences of $590 million ($418 million in 2018) for which the benefits have not been recognized. As at December 31, 2019 and 2018, no deferred tax liability was recognized in respect to temporary differences associated with investments in subsidiaries and jointly controlled corporations as the Corporation and its subsidiaries are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTE 18 Stated Capital

AUTHORIZED

The authorized capital of Power Corporation consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Participating Preferred Shares; and an unlimited number of Subordinate Voting Shares.

ISSUED AND OUTSTANDING

	December 31, 2019		December 31, 2018	
	Number of shares	Stated capital	Number of shares	Stated capital
		$		$
Non-Participating Shares				
First Preferred Shares				
Cumulative Redeemable				
1986 Series	209,400	10	247,200	12
Non-cumulative Redeemable, fixed rate				
Series A	6,000,000	150	6,000,000	150
Series B	8,000,000	200	8,000,000	200
Series C	6,000,000	150	6,000,000	150
Series D	10,000,000	250	10,000,000	250
Series G	8,000,000	200	8,000,000	200
		960		962
Participating Shares				
Participating Preferred Shares	48,854,772	27	48,854,772	27
Subordinate Voting Shares				
Balance, beginning of year	417,101,146	739	415,443,579	690
Issued under Stock Option Plan	1,422,502	33	1,657,567	49
Purchase for cancellation under substantial issuer bid	(40,909,041)	(73)	–	–
Balance, end of year	377,614,607	699	417,101,146	739
Total Participating Shares		726		766

Non-Participating Shares

The Cumulative Redeemable First Preferred Shares, 1986 Series are entitled to a quarterly cumulative dividend, at a floating rate equal to one quarter of 70% of the average of the prime rates quoted by two major Canadian chartered banks. The shares are redeemable by the Corporation at $50.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption. The Corporation will make all reasonable efforts to purchase for cancellation, on the open market, 20,000 shares per quarter, at a price not exceeding $50.00 per share. In 2019, 37,800 shares (53,600 shares in 2018) were purchased for cancellation.

NOTE 18 Stated Capital (continued)

The following First Preferred Shares series are entitled to fixed non-cumulative preferential cash dividends payable quarterly. The Corporation may redeem for cash the First Preferred Shares in whole or in part, at the Corporation's option, with all declared and unpaid dividends to, but excluding, the date of redemption. The dividends and redemption terms are as follows:

First Preferred Shares	Cash dividends payable quarterly	Earliest issuer redemption date	Redemption price
	($/share)		($/share)
Non-cumulative, fixed rate			
Series A, 5.60%	0.350000	Currently redeemable	25.00
Series B, 5.35%	0.334375	Currently redeemable	25.00
Series C, 5.80%	0.362500	Currently redeemable	25.00
Series D, 5.00%	0.312500	Currently redeemable	25.00
Series G, 5.60%	0.350000	Currently redeemable	25.50

Participating Shares

Participating Preferred Shares are entitled to ten votes per share; and, subject to the rights of holders of the First Preferred Shares, to a non-cumulative dividend of 0.9375¢ per share per annum before dividends on the Subordinate Voting Shares and have the further right to participate, share and share alike, with the holders of the Subordinate Voting Shares in any dividends that may be paid with respect to the Subordinate Voting Shares.

Subordinate Voting Shares are entitled to one vote per share. In 2019, 1,422,502 Subordinate Voting Shares (1,657,567 in 2018) were issued under the Corporation's Executive Stock Option Plan for a consideration of $30 million ($43 million in 2018).

Dividends declared on the Corporation's participating shares in 2019 were $2.002 per share ($1.5045 per share in 2018).

Substantial Issuer Bid

On April 17, 2019, the Corporation completed its substantial issuer bid (the PCC SIB) and purchased for cancellation 40,909,041 of its Subordinate Voting Shares at a purchase price of $33.00 per Subordinate Voting Share for an aggregate amount of $1.35 billion. The excess paid under the PCC SIB over the stated capital of $1.28 billion was recognized as a reduction to retained earnings. Transaction costs incurred in connection with the PCC SIB of $5 million were recorded in retained earnings.

NOTE 19 Share-Based Compensation

STOCK OPTION PLAN

Under Power Corporation's Executive Stock Option Plan, 21,908,356 Subordinate Voting Shares are reserved for issuance. The plan requires that the exercise price of the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest on the basis of [i] the first 50%, three years from the date of grant and [ii] the remaining 50%, four years from the date of grant, except for a grant of 37,142 options in 2015 and grants of 96,291 options in 2016 which vest equally over a period of five years.

A summary of the status of Power Corporation's Executive Stock Option Plan as at December 31, 2019 and 2018, and changes during the respective years ended is as follows:

	2019		2018	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		$		$
Outstanding, beginning of year	16,453,341	28.43	17,630,666	28.38
Granted	1,325,223	31.84	1,350,172	28.51
Exercised	(1,422,502)	21.09	(1,657,567)	25.74
Forfeited and expired	–	–	(869,930)	32.66
Outstanding, end of year	16,356,062	29.35	16,453,341	28.43
Options exercisable, end of year	11,873,872	28.96	11,994,650	27.75

The following table summarizes information about stock options outstanding at December 31, 2019:

		Options outstanding			Options exercisable	
Range of exercise prices	Expiry date	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
$			(yrs)	$		$
30.07	2020	1,496,115	0.2	30.07	1,496,115	30.07
23.54 – 27.60	2021	1,577,241	1.2	27.55	1,577,241	27.55
23.73 – 33.82	2022	2,979,245	2.2	27.26	2,979,245	27.26
28.24	2023	2,549,897	3.4	28.24	2,549,897	28.24
29.91 – 31.48	2024	1,399,014	4.4	29.89	1,379,581	29.90
33.66 – 33.82	2025	1,210,620	5.2	33.81	1,203,192	33.81
27.30 – 29.73	2026	1,364,664	6.2	29.45	688,601	29.43
29.61 – 31.48	2027	1,106,184	7.2	31.46	–	–
28.51	2028	1,347,859	8.2	28.51	–	–
31.84	2029	1,325,223	9.3	31.84	–	–
		16,356,062	4.3	29.35	11,873,872	28.96

Subsequent event

As a part of the Reorganization (Note 33) completed on February 13, 2020, Power Corporation assumed the Power Financial stock option plan. The 13,079,888 options outstanding at February 13, 2020 under Power Financial's Employee Stock Option Plan were exchanged for options to acquire 13,733,876 Subordinate Voting Shares of Power Corporation.

COMPENSATION EXPENSE

During the year ended December 31, 2019, Power Corporation granted 1,325,223 options (1,350,172 options in 2018) under its Executive Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2019	2018
Dividend yield	4.9%	4.5%
Expected volatility	15.6%	16.5%
Risk-free interest rate	1.8%	2.1%
Expected life (years)	8.6	8.3
Fair value per stock option ($/option)	1.87	2.29
Weighted-average exercise price ($/option)	31.84	28.51

NOTE 19 Share-Based Compensation (continued)

Expected volatility has been estimated based on the historical volatility of the Corporation's share price over the expected option life.

Power Financial, Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity instruments at the grant date, amortized over the vesting period. Total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to $61 million in 2019 ($50 million in 2018) and is recorded in operating and administrative expenses in the statements of earnings.

PERFORMANCE SHARE UNIT PLAN

Power Corporation established a Performance Share Unit (PSU) Plan for selected employees and officers (participants) to assist in retaining and further aligning the interests of participants with those of the shareholders. Under the terms of the Plan, PSUs may be awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Corporation's Subordinate Voting Shares. The PSUs are cash settled and vest over a three-year period. Participants can elect at the time of grant to receive a portion of their PSUs in the form of performance deferred share units (PDSUs) which also vest over a three-year period. PDSUs are redeemable when a participant is no longer an employee of the Corporation or any of its affiliates, or in the event of the death of the participant, by a lump-sum cash payment based on the value of the PDSU at that time. Additional PSUs and PDSUs are issued in respect of dividends payable on Subordinate Voting Shares based on the value of the PSU or PDSU at the dividend payment date. The carrying value of the PSU liability of $13 million ($6 million in 2018) is recorded within other liabilities.

DEFERRED SHARE UNIT PLAN

Power Corporation established a Deferred Share Unit Plan for its Directors to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this Plan, Directors participating in the Plan will receive half of their annual retainer in the form of deferred share units and may elect to receive the remainder of their annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Subordinate Voting Shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director will receive additional deferred share units in respect of dividends payable on the Subordinate Voting Shares, based on the value of a deferred share unit on the date on which the dividends were paid on the Subordinate Voting Shares. A deferred share unit is payable, at the time a Director's membership on the Board is terminated (provided the Director is not then a director, officer or employee of an affiliate of the Corporation), or in the event of the death of a Director, by a lump-sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2019, the value of the deferred share units outstanding was $23 million ($15 million in 2018) and is recorded within other liabilities. Alternatively, directors may participate in a Share Purchase Plan for Directors.

EMPLOYEE SHARE PURCHASE PROGRAM

Power Corporation established an Employee Share Purchase Program, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of the Corporation on the open market. Power Corporation invests, on the employee's behalf, up to an equal amount.

OTHER SHARE-BASED AWARDS OF SUBSIDIARIES

Power Financial and the other subsidiaries of the Corporation have also established other share-based awards and performance share unit plans (plans) for their directors, management and employees. Some of these plans are cash settled and included within other liabilities. Total compensation expense related to these subsidiary plans amounted to $125 million in 2019 ($70 million in 2018) and is recorded in operating and administrative expenses on the statements of earnings.

NOTE 20 Non-Controlling Interests

The non-controlling interests of Power Financial and other subsidiaries reflected in the balance sheets are as follows:

	December 31, 2019			December 31, 2018		
	Power Financial	Other subsidiaries	Total	Power Financial	Other subsidiaries	Total
Non-controlling interests, beginning of year						
As previously reported	22,680	248	22,928	21,630	250	21,880
Change in accounting policies [Note 2]	(63)	–	(63)	–	–	–
Restated non-controlling interests, beginning of year	22,617	248	22,865	21,630	250	21,880
Net earnings (losses) attributable to non-controlling interests	1,899	(16)	1,883	2,110	18	2,128
Other comprehensive income (loss) attributable to non-controlling interests	(127)	(2)	(129)	337	2	339
Dividends	(1,348)	–	(1,348)	(1,329)	–	(1,329)
Repurchase of common shares and redemption of preferred shares, net of issuance of equity instruments [1]	(703)	(4)	(707)	(12)	(42)	(54)
Effect of changes in ownership interest and other [1]	(134)	(19)	(153)	(56)	20	(36)
Non-controlling interests, end of year	22,204	207	22,411	22,680	248	22,928

[1] Includes the impact of the purchase for cancellation of common shares by Power Financial and Lifeco under their substantial issuer bids.

The carrying value of non-controlling interests consists of the following:

	December 31, 2019	December 31, 2018
Common shareholders	14,108	14,497
Preferred shareholders	5,544	5,694
Participating account surplus	2,759	2,737
	22,411	22,928

Summarized financial information for Power Financial is as follows:

	2019	2018
Balance sheet		
Assets	471,372	447,055
Liabilities	437,660	412,106
Equity	33,712	34,949
Comprehensive income		
Net earnings	3,169	3,580
Other comprehensive income (loss)	(58)	645
Cash flows		
Operating activities	6,708	7,129
Financing activities	(4,872)	(2,278)
Investing activities	(1,058)	(4,714)

NOTE 21 Capital Management

POWER CORPORATION

As a holding company, Power Corporation's objectives in managing its capital are to:

- provide attractive long-term returns to shareholders of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present;
- maintain a capital structure that matches the long-term nature of its investments by maximizing the use of permanent capital; and
- maintain an appropriate credit rating to ensure stable access to the capital markets.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital.

The capital structure of the Corporation consists of debentures, non-participating shares, participating shareholders' equity and non-controlling interests. The Corporation views non-participating shares as a cost-effective source of permanent capital. The Corporation is a long-term investor and as such holds positions in long-term investments as well as cash and fixed income securities for liquidity purposes.

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of participating shares, non-participating shares and debentures. The boards of directors of the Corporation's subsidiaries, as well as those of Pargesa and Groupe Bruxelles Lambert, oversee and have the responsibility for their respective company's capital management.

On April 17, 2019, the Corporation completed the PCC SIB and repurchased for cancellation $1.35 billion of its subordinate voting shares. The PCC SIB facilitated the repurchase of subordinate voting shares at attractive market valuations and returned capital to shareholders while maintaining the financial resources to pursue its strategy for long-term value creation across its well-diversified portfolio of investments.

The Corporation itself is not subject to externally imposed regulatory capital requirements. However, Lifeco and certain of its main subsidiaries, IGM's subsidiaries and certain of the Corporation's other subsidiaries are subject to regulatory capital requirements and they manage their capital as described below.

LIFECO

Lifeco manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of Lifeco's capital management strategy are:

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of Lifeco ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholder value in the context of Lifeco's operational risks and strategic plans.

Lifeco has established policies and procedures designed to identify, measure and report all material risks. Management of Lifeco is responsible for establishing capital management procedures for implementing and monitoring the capital plan.

The target level of capitalization for Lifeco and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to Lifeco, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of Lifeco with a high degree of confidence.

NOTE 21 Capital Management (continued)

Lifeco's subsidiaries Great-West Life, Great-West Life & Annuity and entities based in Europe are subject to minimum regulatory capital requirements.

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a regulatory capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries known as the Life Insurance Capital Adequacy Test (LICAT). The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer, defined by OSFI, is the aggregate of all defined capital requirements multiplied by a scalar of 1.05. The total capital resources are provided by the sum of available capital, surplus allowance and eligible deposits. OSFI has established a supervisory target total ratio of 100%, and a supervisory minimum total ratio of 90%. Great-West Life's consolidated LICAT ratio at December 31, 2019 was 135% (140% at December 31, 2018).
- For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2019 and 2018, all Lifeco's European regulated entities met the capital and solvency requirements as prescribed under Solvency II.
- Great-West Life & Annuity is subject to the risk-based capital regulatory regime in the U.S.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2019 and 2018, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

IGM FINANCIAL

IGM's capital management objective is to maximize shareholder returns while ensuring that IGM is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. IGM's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. IGM regularly assesses its capital management practices in response to changing economic conditions.

IGM's capital is primarily used in its ongoing business operations to support working capital requirements, its long-term investments, business expansion and other strategic objectives.

The IGM subsidiaries that are subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. At December 31, 2019 and 2018, IGM subsidiaries have complied with all regulatory capital requirements.

OTHER SUBSIDIARIES

Certain other subsidiaries are subject to regulatory capital requirements, including a mutual fund dealer, portfolio managers, asset managers and an order-execution-only broker. These other subsidiaries are required to maintain levels of capital based on their working capital, liquidity or shareholders' equity. At December 31, 2019 and 2018, these other subsidiaries have complied with all regulatory capital requirements.

NOTE 22 Risk Management

The Corporation and its subsidiaries have established policies, guidelines and procedures designed to identify, measure, monitor and mitigate risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- Liquidity risk is the risk that the Corporation and its subsidiaries would not be able to meet all cash outflow obligations as they come due or be able to, in a timely manner, raise capital or monetize assets at normal market conditions.
- Credit risk is the potential for financial loss to the Corporation and its subsidiaries if a counterparty in a transaction fails to meet its payment obligations. Credit risk can be related to the default of a single debt issuer, the variation of credit spreads on tradable fixed income securities and also to counterparty risk relating to derivative products.
- Market risk is the risk that the market value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: foreign exchange risk, interest rate risk and equity risk.
  - Foreign exchange risk relates to the Corporation, its subsidiaries and its jointly controlled corporations and associates operating in different currencies and converting non-Canadian investments and earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
  - Interest rate risk is the risk that the fair value of a financial instrument will fluctuate following changes in the interest rates.
  - Equity risk is the potential loss associated with the sensitivity of the market price of a financial instrument arising from volatility in equity markets.

This note to the financial statements includes estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons, including:

- assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered;
- changes in actuarial, investment return and future investment activity assumptions;
- actual experience differing from the assumptions;
- changes in business mix, effective tax rates and other market factors;
- interactions among these factors and assumptions when more than one changes; and
- the general limitations of internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Corporation cannot provide assurance that the actual impact on net earnings will be as indicated.

NOTE 22 Risk Management (continued)

POWER CORPORATION, POWER FINANCIAL AND OTHER SUBSIDIARIES

Liquidity risk, credit risk and market risk of Power Corporation, Power Financial and the Corporation's other subsidiaries are discussed in the first section of this note. In subsequent sections, risks related to Lifeco and IGM are discussed.

Liquidity risk

Power Corporation is a holding company. As such, corporate cash flows are principally derived from dividends received from its subsidiaries and income from investments, less operating expenses, financing charges, income taxes and payment of dividends to its participating and non-participating shareholders. Dividends received from Power Financial, which is also a holding company, represent a significant component of Power Corporation's corporate cash flows. The ability of Power Financial's subsidiaries (Lifeco and IGM) and jointly controlled corporation (Parjointco), which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their own subsidiaries.

Power Corporation and Power Financial regularly review their liquidity requirements and seek to maintain sufficient levels of liquidities to meet their operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time, as defined in their policies. The ability of Power Corporation, Power Financial and other subsidiaries to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance and risk profile of Power Corporation, Power Financial and their subsidiaries.

Liquidity is also available through the Corporation's lines of credit with Canadian banks. The Corporation has a committed line of credit of $250 million. The Corporation also maintains an uncommitted line of credit of $100 million, and any advances are at the bank's sole discretion. At December 31, 2019, the Corporation utilized $37 million of its committed line of credit and the uncommitted line of credit was not utilized.

Other subsidiaries also have committed lines of credit of $211 million and uncommitted lines of credit of $65 million with Canadian banks ($239 million was undrawn at December 31, 2019).

Principal repayments on debentures and other debt instruments, and pension funding (other than those of Lifeco and IGM discussed below) represent the only significant contractual liquidity requirements.

	Payments due by period			
December 31, 2019	Less than 1 year	1–5 years	After 5 years	Total
Debentures and other debt instruments	235	307	1,425	1,967
Future lease payments	54	166	242	462
Pension contributions	16	–	–	16
	305	473	1,667	2,445

Power Corporation, Power Financial and other subsidiaries' management of liquidity risk has not changed materially since December 31, 2018.

Credit risk

Fixed income securities and derivatives are subject to credit risk. Power Corporation and Power Financial mitigate credit risk on their fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum rating and concentration limits.

NOTE 22 Risk Management (continued)

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and banks in jurisdictions where Power Corporation, Power Financial and other subsidiaries operate, as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. Power Corporation and Power Financial regularly review the credit ratings of their counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives can also be used to mitigate foreign exchange exposures. Power Corporation and Power Financial regularly review the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

Other subsidiaries' financial instruments include other loans and are subject to credit risk. Other subsidiaries regularly review the credit ratings of their counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Power Corporation, Power Financial and other subsidiaries' exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2018.

Market risk

Power Corporation and Power Financial and other subsidiaries' financial instruments are comprised of cash and cash equivalents, fixed income securities, other investments (consisting of equity securities, other loans, investment funds and hedge funds), derivatives and debentures and other debt instruments.

a) Foreign exchange risk

In managing their own cash and cash equivalents as well as fixed income securities, Power Corporation, Power Financial and other subsidiaries may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Corporation and Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2019, approximately 82% (69% as at December 31, 2018) of Power Corporation, Power Financial and other subsidiaries' cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

Most of Power Corporation's other investments are classified as available for sale. As such, unrealized gains and losses on these investments, resulting from foreign exchange rate variations, are recorded in other comprehensive income until realized. As at December 31, 2019, the impact of a 5% strengthening of the Canadian dollar against foreign currencies would result in an unrealized loss recorded in other comprehensive income of approximately $89 million ($76 million as at December 31, 2018). Power Corporation's and Power Financial's debentures are denominated in Canadian dollars. Certain subsidiaries of the Corporation have debt instruments in foreign currencies. Unrealized gains or losses on these debt instruments resulting from foreign exchange variations are recorded in other comprehensive income.

Power Corporation has net investments in foreign operations. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations are recorded in other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar and Chinese renminbi spot rates impacts the Corporation's total equity.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. Pargesa itself is exposed to foreign exchange risk through its subsidiary whose functional currency is the euro. Power Corporation is also exposed to foreign exchange risk on its investment in China AMC. Foreign currency translation gains and losses on these investments are recorded in other comprehensive income.

NOTE 22 Risk Management (continued)

b) Interest rate risk

Power Corporation, Power Financial and other subsidiaries' financial instruments do not have significant exposure to interest rate risk.

c) Equity risk

Other investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

During the year, the Corporation recorded investment impairment charges amounting to $40 million ($81 million in 2018). As at December 31, 2019, the impact of a 5% decrease in the value of other investments would have resulted in an approximate $82 million ($62 million as at December 31, 2018) unrealized loss to be recorded in other comprehensive income.

Pargesa indirectly holds substantial investments classified as available for sale. Unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

Other subsidiaries' financial instruments do not have significant exposure to equity risk.

LIFECO

The risk committee of the board of directors of Lifeco is responsible for the oversight of Lifeco's key risks.

Liquidity risk

Lifeco has the following policies and procedures in place to manage liquidity risk:

- Lifeco closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 57% (approximately 53% in 2018) of insurance and investment contract liabilities are non-cashable prior to maturity or claim, with a further approximately 14% (13% in 2018) of insurance and investment contract liabilities subject to fair value adjustments under certain conditions.
- Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. Lifeco maintains $350 million of liquidity at its level through committed lines of credit with Canadian chartered banks. As well, Lifeco maintains a $150 million liquidity facility at Great-West Life, a US$500 million revolving credit agreement with a syndicate of banks for use by Putnam, and a US$50 million line of credit at Great-West Life & Annuity.

In the normal course of business, Lifeco enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of Lifeco's financial liabilities.

	Payments due by period						
December 31, 2019	1 year	2 years	3 years	4 years	5 years	After 5 years	Total
Debentures and other debt instruments	929	–	–	730	–	4,224	5,883
Capital trust debentures [1]	–	–	–	–	–	150	150
Purchase obligations	125	57	29	13	8	84	316
Future lease payments	83	78	66	56	53	417	753
Pension contributions	280	–	–	–	–	–	280
	1,417	135	95	799	61	4,875	7,382

[1] Payments due have not been reduced to reflect that Lifeco held capital trust securities of $37 million principal amount ($53 million carrying value).

NOTE 22 Risk Management (continued)

Credit risk

Lifeco has the following policies and procedures in place to manage credit risk:

- Investment policies aim to minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- Portfolios are monitored continuously, and reviewed regularly with the risk committee and the investment committee of the board of directors of Lifeco.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators. Lifeco manages derivative credit risk by including derivative exposure to aggregate credit exposures measured against rating-based obligor limits and through collateral arrangements where possible.
- Counterparties providing reinsurance to Lifeco are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in Lifeco's Reinsurance Risk Management Policy. Lifeco seeks to minimize reinsurance credit risk by setting rating-based limits on net ceded exposure by counterparty as well as by seeking protection in the form of collateral or funds-withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

a) Maximum exposure to credit risk

The following table summarizes Lifeco's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	December 31, 2019	December 31, 2018
Cash and cash equivalents	4,628	4,168
Bonds		
Fair value through profit or loss	85,946	91,901
Available for sale	11,710	13,239
Loans and receivables	17,372	19,722
Mortgage loans	24,268	25,014
Loans to policyholders	8,601	8,929
Funds held by ceding insurers [1]	8,714	9,251
Reinsurance assets	20,707	6,126
Interest due and accrued	1,196	1,388
Accounts receivable	3,256	2,502
Premiums in course of collection	1,429	1,312
Trading account assets	1,092	843
Finance leases receivable	405	410
Other financial assets [2]	444	672
Derivative assets	451	417
Total balance sheet maximum credit exposure	190,219	185,894

[1] Includes $6,741 million as at December 31, 2019 ($7,246 million as at December 31, 2018) of funds held by ceding insurers where Lifeco retains the credit risk of the assets supporting the liabilities ceded (see Note 7).

[2] Includes items such as income taxes receivable and miscellaneous other assets of Lifeco.

NOTE 22 Risk Management (continued)

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has $156 million of collateral received from counterparties as at December 31, 2019 ($109 million as at December 31, 2018) relating to derivative assets.

b) Concentrations of credit risk

Concentrations of credit risk arise from exposures to a single obligor, a group of related obligors or groups of obligors that have similar credit risk characteristics and operate in the same geographic region or in similar industries. The characteristics of such obligors are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following table provides details of the carrying value of bonds of Lifeco by issuer, industry sector and geographic distribution:

				December 31, 2019
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	479	72	11,186	11,737
Government-related	19,307	1,795	8,814	29,916
Agency securitized	110	1,111	10	1,231
Non-agency securitized	2,159	4,664	1,738	8,561
Financials	4,119	3,011	6,346	13,476
Communications	888	617	1,120	2,625
Consumer products	3,761	2,738	3,504	10,003
Energy	2,173	1,071	906	4,150
Industrials	1,764	2,057	1,735	5,556
Technology	552	727	567	1,846
Transportation	2,897	546	1,197	4,640
Utilities	9,145	2,377	4,953	16,475
Short-term bonds	2,680	720	1,412	4,812
	50,034	21,506	43,488	115,028

				December 31, 2018
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	654	103	12,492	13,249
Government-related	17,947	3,605	8,499	30,051
Agency securitized	80	1,531	14	1,625
Non-agency securitized	2,191	5,701	1,830	9,722
Financials	3,986	4,666	6,068	14,720
Communications	788	1,357	1,211	3,356
Consumer products	3,660	4,073	3,412	11,145
Energy	1,805	2,241	868	4,914
Industrials	1,606	3,932	1,757	7,295
Technology	611	1,105	470	2,186
Transportation	2,622	968	1,131	4,721
Utilities	8,525	4,201	4,686	17,412
Short-term bonds	2,790	74	1,602	4,466
	47,265	33,557	44,040	124,862

NOTE 22 Risk Management (continued)

The following table provides details of the carrying value of mortgage loans of Lifeco by geographic location:

December 31, 2019	Single-family residential	Multi-family residential	Equity-release	Commercial	Total
Canada	2,069	4,496	374	7,871	14,810
United States	-	1,798	-	2,198	3,996
Europe	-	710	940	3,812	5,462
	2,069	7,004	1,314	13,881	24,268

December 31, 2018	Single-family residential	Multi-family residential	Equity-release	Commercial	Total
Canada	2,104	4,686	26	7,223	14,039
United States	–	2,434	–	4,006	6,440
Europe	–	497	787	3,251	4,535
	2,104	7,617	813	14,480	25,014

c) Asset quality

Bond Portfolio Quality	December 31, 2019	December 31, 2018
AAA	22,083	23,558
AA	33,272	33,793
A	37,233	41,008
BBB	21,922	25,553
BB and lower	518	950
Total bonds	115,028	124,862

Derivative Portfolio Quality	December 31, 2019	December 31, 2018
Over-the-counter contracts (counterparty credit ratings):		
AA	271	252
A	146	110
BBB	34	47
Exchange-traded	-	8
Total	451	417

d) Loans past due, but not impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management of Lifeco has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	December 31, 2019	December 31, 2018
Less than 30 days	28	1
30–90 days	1	2
Greater than 90 days	4	–
Total	33	3

NOTE 22 Risk Management (continued)

e) Future asset credit losses

The following outlines the future asset credit losses provided for in insurance contract liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	December 31, 2019	December 31, 2018
Participating	1,175	885
Non-participating	1,400	1,710
	2,575	2,595

Market risk

a) Foreign exchange risk

If the assets backing insurance and investment contract liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Lifeco has net investments in foreign operations. Lifeco's debt obligations are denominated in Canadian dollars, euros and U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts Lifeco's total equity. Correspondingly, Lifeco's book value per share and capital ratios monitored by rating agencies are also impacted.

The following policies and procedures are in place to mitigate Lifeco's exposure to foreign exchange risk:

- Lifeco uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented investment guidelines include maximum tolerances for unhedged currency mismatch exposures.
- For assets backing liabilities not matched by currency, Lifeco normally converts the assets back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.
- A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.

b) Interest rate risk

The following policies and procedures are in place to mitigate Lifeco's exposure to interest rate risk:

- Lifeco uses a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.

NOTE 22 Risk Management (continued)

- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.
- The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.10% (0.10% in 2018). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries-prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on Lifeco's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact Lifeco's range of scenarios covered.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries-prescribed scenarios:

- At December 31, 2019 and 2018, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- At December 31, 2019 and 2018, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

NOTE 22 Risk Management (continued)

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the net earnings of a 1% change in Lifeco's view of the range of interest rates to be covered by these provisions. The following provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions:

	December 31, 2019		December 31, 2018	
	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	(230)	811	(165)	639
Increase (decrease) in net earnings	175	(619)	115	(465)

c) Equity risk

Lifeco has investment policy guidelines in place that provide for prudent investment in equity markets with clearly defined limits to mitigate price risk.

The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, Lifeco generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level. In other words, Lifeco determines insurance contract liabilities at a level that covers the average loss in the worst 25% part of the loss distribution.

Some insurance and investment contract liabilities are supported by investment properties, common shares and private equities, for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity values. However, there may be additional market and liability impacts as a result of changes in the equity values that will cause the liabilities to fluctuate differently than the equity values. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

	December 31, 2019		December 31, 2018	
	10% increase	10% decrease	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	(107)	162	(87)	338
Increase (decrease) in net earnings	87	(129)	73	(266)

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. The following provides information on the expected impacts of a 1% increase or 1% decrease in the best estimate assumptions:

	December 31, 2019		December 31, 2018	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	(645)	752	(591)	680
Increase (decrease) in net earnings	509	(585)	476	(539)

NOTE 22 Risk Management (continued)

IGM FINANCIAL

The board of directors of IGM provides oversight and carries out its risk management mandate through various committees.

Liquidity risk

IGM's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near-term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and IGM's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and by committees of the board of directors of IGM.

A key liquidity requirement for IGM is the funding of consultant network compensation paid for the distribution of financial products and services. This compensation continues to be paid from operating cash flows.

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements related to the mortgage banking operation. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS), including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

Certain subsidiaries of IGM are approved issuers of NHA MBS and are approved sellers into the CMB Program. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in principal reinvestment accounts.

IGM maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

IGM's contractual maturities of certain liabilities were as follows:

	Payments due by period				
December 31, 2019	Demand	Less than 1 year	1–5 years	After 5 years	Total
Derivative financial instruments	–	7	10	–	17
Deposits and certificates	573	6	4	1	584
Obligations to securitization entities	–	1,474	5,431	9	6,914
Future lease payments	–	26	54	24	104
Debentures	–	-	-	2,100	2,100
Pension contributions	–	26	-	–	26
Total contractual maturities	573	1,539	5,499	2,134	9,745

NOTE 22 Risk Management (continued)

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's lines of credit. IGM's lines of credit with various Schedule I Canadian chartered banks totalled $825 million as at December 31, 2019, unchanged from December 31, 2018. The lines of credit as at December 31, 2019 consisted of committed lines of $650 million and uncommitted lines of $175 million. IGM has accessed its uncommitted lines of credit in the past; however, any advances made by the banks under the uncommitted lines are at the banks' sole discretion. As at December 31, 2019 and 2018, IGM was not utilizing its committed lines of credit or its uncommitted lines of credit.

IGM's liquidity position and its management of liquidity risk have not changed materially since December 31, 2018.

Credit risk

IGM's cash and cash equivalents, other investment holdings, mortgage portfolios and derivatives are subject to credit risk. IGM monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

At December 31, 2019, IGM's cash and cash equivalents of $720 million ($650 million in 2018) consisted of cash balances of $68 million ($82 million in 2018) on deposit with Canadian chartered banks and cash equivalents of $652 million ($568 million in 2018). IGM manages credit risk related to cash and cash equivalents by adhering to its investment policy that outlines credit risk parameters and concentration limits. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2019, residential mortgages, recorded on IGM's balance sheet, of $7.2 billion ($7.7 billion in 2018) consisted of $6.8 billion sold to securitization programs ($7.3 billion in 2018), $345 million held pending sale or securitization ($364 million in 2018) and $24 million related to IGM's intermediary operations ($26 million in 2018).

IGM manages credit risk related to residential mortgages through:

- adhering to its lending policy and underwriting standards;
- its loan servicing capabilities;
- use of client-insured mortgage default insurance and mortgage portfolio default insurance held by IGM; and
- its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's IG Living Plan™.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling $3.9 billion ($4.2 billion in 2018), IGM is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling $2.9 billion ($3.1 billion in 2018) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were $72 million ($74 million in 2018) and $38 million ($36 million in 2018), respectively, at December 31, 2019. Cash reserve accounts are reflected on the balance sheets, whereas rights to future net interest income are not reflected on the balance sheets and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 4.6% of mortgages held in ABCP trusts insured at December 31, 2019 (8.3% in 2018).

NOTE 22 Risk Management (continued)

At December 31, 2019, residential mortgages recorded on the balance sheet were 59.1% insured (61.5% in 2018). At December 31, 2019, impaired mortgages on these portfolios were $2 million ($3 million in 2018). Uninsured non-performing mortgages over 90 days on these portfolios were $2 million at December 31, 2019 ($2 million in 2018).

IGM also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on IGM's balance sheet as IGM has transferred substantially all of the risks and rewards of ownership associated with these loans.

IGM regularly reviews the credit quality of the mortgages and the adequacy of the allowance for credit losses.

IGM's allowance for credit losses was $1 million at December 31, 2019 ($1 million in 2018), and is considered adequate by IGM's management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2018.

IGM is exposed to credit risk through the derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain share-based compensation arrangements. These derivatives are discussed more fully under the market risk section below.

To the extent that the fair value of the derivatives is in a gain position, IGM is exposed to the credit risk that its counterparties fail to fulfill their obligations under these arrangements.

IGM's derivative activities are managed in accordance with its investment policy, which includes counterparty limits and other parameters to manage counterparty risk. Counterparties are all Canadian Schedule I chartered banks and, as a result, management of IGM has determined that its overall credit risk related to derivatives was not significant at December 31, 2019. Management of credit risk related to derivatives has not changed materially since December 31, 2018.

Market risk

a) Foreign exchange risk

IGM is exposed to foreign exchange risk on its investments in China AMC and Personal Capital. Changes to the carrying value due to changes in foreign exchange rates on both of these investments are recognized in other comprehensive income. A 5% increase (decrease) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investment by approximately $41 million ($45 million in 2018).

IGM's proportionate share of China AMC's and Personal Capital's earnings (losses), recorded in share of earnings (losses) of investments in jointly controlled corporations and associates in the statement of earnings, is also affected by changes in foreign exchange rates. A 5% increase (decrease) in Canadian currency relative to foreign currencies would decrease (increase) the proportionate share of China AMC's and Personal Capital's earnings by approximately $1 million ($1 million in 2018).

NOTE 22 Risk Management (continued)

b) Interest rate risk

IGM is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in IGM's mortgage banking operations.

IGM manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, IGM is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of $1 million (positive $5 million in 2018) and an outstanding notional value of $0.8 billion at December 31, 2019 ($0.9 billion in 2018). IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The negative fair value of these swaps totalled $5 million ($11 million in 2018), on an outstanding notional amount of $1.6 billion at December 31, 2019 ($1.7 billion in 2018). The negative net fair value of these swaps recorded on the balance sheet was $6 million at December 31, 2019 ($6 million in 2018) and has an outstanding notional amount of $2.4 billion at December 31, 2019 ($2.6 billion in 2018).
- IGM is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. IGM enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by IGM pending sale or securitization. The fair value of these swaps was $1 million (negative $2 million in 2018) on an outstanding notional amount of $180 million at December 31, 2019 ($250 million in 2018).

As at December 31, 2019, the impact to net earnings of a 100-basis-point increase in interest rates would have been a decrease of approximately $2 million (decrease of $1 million in 2018). IGM's exposure to and management of interest rate risk have not changed materially since December 31, 2018.

c) Equity risk

IGM is exposed to equity risk on its equity investments which are classified as either available for sale or fair value through profit or loss.

IGM sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. IGM hedges its exposure to this risk through the use of forward agreements and total return swaps.

Risks related to assets under management

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings of IGM.

NOTE 23 Operating and Administrative Expenses

	Years ended December 31,	
	2019 [1]	2018
Salaries and other employee benefits	4,567	4,365
General and administrative expenses [2]	2,516	2,643
Amortization, depreciation and impairment	687	564
Premium taxes	506	495
Restructuring and other	65	108
	8,341	8,175

[1] Includes operating and administrative expenses recognized upon the completion of the reinsurance transaction with Protective Life (Note 3).

[2] Expenses related to short-term leases of $10 million and low-value leases of $3 million are included within general and administrative expenses.

RESTRUCTURING AND OTHER

Lifeco

In 2019, Putnam recorded a restructuring provision of $52 million ($36 million after tax). This restructuring is in respect of expense reductions and a realignment of its resources to best position itself for current and future opportunities. The expense reductions will be achieved through a reduction in staff, consolidation of certain mutual funds, digital technology modernization and facilities downsizing. Lifeco expects to pay out a significant portion of these remaining amounts during 2020.

In 2018, Lifeco recorded a restructuring provision of $67 million pre tax ($56 million after tax) in relation to its United Kingdom Business Transformation. This restructuring is in respect to activities aimed at achieving planned expense reductions and an organizational realignment. The expense reductions will be achieved through system exit costs, reduction in staff and other costs as a result of the integration of Retirement Advantage into Canada Life along with the sale of a heritage block of individual policies to Scottish Friendly.

IGM Financial

In 2018, IGM recorded a restructuring provision of $23 million pre tax ($17 million after tax) related to the re-engineering of its North American equity offerings and associated personnel changes, as well as other initiatives to improve IGM's offerings and operational effectiveness.

These restructuring charges are recorded within operating and administrative expenses in the statements of earnings. At December 31, 2019, the balance of restructuring provisions, including those above, of $109 million ($139 million in 2018) is recorded in other liabilities.

NOTE 24 Financing Charges

	Years ended December 31,	
	2019	2018
Interest on debentures and other debt instruments	474	415
Interest on lease liabilities	41	–
Interest on capital trust debentures	11	11
Other	18	36
	544	462

NOTE 25 Pension Plans and Other Post-Employment Benefits

CHARACTERISTICS, FUNDING AND RISKS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors as well as unfunded supplementary employee retirement plans (SERP) for certain employees. The Corporation and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. For most plans, active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits, in accordance with the terms of the plans, and assuming the plans are not terminated. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are supported by assets of the Corporation or its subsidiaries, as applicable.

The defined benefit plans of the Corporation, Power Financial, Lifeco's subsidiaries and IGM are closed to new entrants with plans in several geographies also closed to future defined benefit accruals. New hires are only eligible for defined contribution benefits. As a result, defined benefit plan exposure will continue to be reduced in future years.

On July 14, 2018, La Presse transferred its assets and liabilities into a new not-for-profit structure with the exception that the Corporation retained responsibility for the funding on a going concern basis of the retirement obligations accrued as at the date of transfer. As a result, the defined benefit plan exposure will be reduced going forward as there is no future service.

The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. Contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Corporation and its subsidiaries also provide unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Lifeco's subsidiaries plans are closed to new hires and were previously amended to limit which employees could become eligible to receive benefits. The obligations for these benefits are supported by assets of the Corporation or its subsidiaries, as applicable.

The Corporation and its subsidiaries have pension and benefit committees or a trusteed arrangement that provides oversight for the benefit plans. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements. Significant changes to benefit plans require approval.

The Corporation and its subsidiaries' funding policy for the funded pension plans is to make annual contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit asset, the Corporation and its subsidiaries determine if an economic benefit exists in the form of potential reductions in future contributions, the present value of future expenses to be paid from the plan and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Corporation and its subsidiaries to the typical risks faced by defined benefit plans, such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Corporation and its subsidiaries.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

PLAN ASSETS, BENEFIT OBLIGATION AND FUNDED STATUS

	December 31, 2019		December 31, 2018	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	7,452	–	7,697	–
Interest income	247	–	241	–
Employee contributions	22	–	16	–
Employer contributions	223	22	234	22
Actual return on assets greater (lower) than interest income	762	–	(401)	–
Benefits paid	(352)	(22)	(432)	(22)
Settlement	(113)	–	(11)	–
Administrative expenses	(10)	–	(9)	–
Foreign exchange and other	(186)	–	117	–
Fair value of plan assets, end of year	8,045	–	7,452	–
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	8,704	428	8,945	511
Current service cost	108	3	144	6
Employee contributions	22	–	16	–
Interest cost	290	17	281	17
Actuarial (gains) losses on:				
Financial assumption changes	1,102	32	(339)	(23)
Demographic assumption changes	(26)	(5)	(69)	(15)
Arising from member experience	11	(4)	27	(7)
Benefits paid	(352)	(22)	(432)	(22)
Past service cost and plan amendments	(1)	–	8	–
Settlement	(150)	–	(12)	–
Curtailment [1]	(3)	–	(5)	(41)
Foreign exchange and other	(199)	(1)	140	2
Defined benefit obligation, end of year	9,506	448	8,704	428
Funded status				
Fund deficit	(1,461)	(448)	(1,252)	(428)
Unrecognized amount due to asset ceiling (see below)	(37)	–	(103)	–
Accrued benefit liability	(1,498)	(448)	(1,355)	(428)

[1] The impact of the curtailment resulting from the transfer of certain other post-employment benefits of La Presse to the new not-for-profit structure on July 14, 2018 was recognized as part of the loss on the disposition and was not included in pension and other post-employment benefits expense for the year ended December 31, 2018.

The aggregate defined benefit obligation of pension plans is as follows:

	December 31, 2019	December 31, 2018
Wholly or partly funded plans	8,792	8,045
Wholly unfunded plans	714	659

The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

	December 31, 2019			December 31, 2018		
	Defined benefit pension plans	Other post-employment benefits	Total	Defined benefit pension plans	Other post-employment benefits	Total
Pension benefit assets [Note 10]	231	–	231	148	–	148
Pension and other post-employment benefit liabilities [Note 16]	(1,729)	(448)	(2,177)	(1,503)	(428)	(1,931)
Accrued benefit liability	(1,498)	(448)	(1,946)	(1,355)	(428)	(1,783)

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Corporation and its subsidiaries must assess whether the pension asset has economic benefit to the Corporation and its subsidiaries through future contribution reductions, the present value of future expenses to be paid from the plan, or surplus refunds; in the event the Corporation and its subsidiaries are not entitled to a benefit, a limit or "asset ceiling" is required on the balance sheet. The following provides a breakdown of the changes in the asset ceiling.

	December 31, 2019	December 31, 2018
Asset ceiling, beginning of year	103	92
Interest on beginning-of-period asset ceiling	4	3
Change in asset ceiling	(70)	8
Asset ceiling, end of year	37	103

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

	December 31, 2019		December 31, 2018	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Defined benefit current service cost	108	3	144	6
Net interest cost	47	17	43	17
Past service cost, plan amendments, curtailments and settlements	(41)	–	2	–
Administration fees	10	–	9	–
Defined contribution current service cost	124	–	111	–
Expense recognized in net earnings	248	20	309	23
Actuarial (gains) losses recognized	1,087	23	(381)	(45)
Return on assets (greater) lower than interest income	(762)	–	401	–
Change in asset ceiling	(70)	–	8	–
Expense (recovery) recognized in other comprehensive income (loss)	255	23	28	(45)
Total expense (income)	503	43	337	(22)

In 2019, the Corporation and its subsidiaries incurred $6 million of actuarial losses ($2 million of actuarial gains in 2018) for pension plan remeasurements not included in the table shown above. This relates to the share of actuarial gains (losses) for investments in jointly controlled corporations and associates.

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

	Defined benefit pension plans	
Percentage (%)	December 31, 2019	December 31, 2018
Equity securities	44	42
Debt securities	46	48
All other assets	10	10
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Lifeco's plan assets include investments in segregated and other funds managed by subsidiaries of Lifeco of $6,031 million at December 31, 2019 ($5,501 million at December 31, 2018) of which $5,961 million ($5,431 million at December 31, 2018) are included in the balance sheets. Plan assets do not include any property occupied or other assets used by Lifeco. IGM's plan assets are invested in IGM's mutual funds. A portion of Power Corporation and Power Financial's plan assets are invested in segregated funds managed by a subsidiary of Lifeco.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

DETAILS OF DEFINED BENEFIT OBLIGATION

Portion of defined benefit obligation subject to future salary increases

	December 31, 2019		December 31, 2018	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Benefit obligation without future salary increases	8,752	448	7,981	428
Effect of assumed future salary increases	754	–	723	–
Defined benefit obligation	9,506	448	8,704	428

Allocation of defined benefit obligation by membership

	December 31, 2019		December 31, 2018	
Percentage (%)	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Actives	40	21	38	24
Deferred vesteds	17	–	20	–
Retirees	43	79	42	76
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	17.9	11.9	17.3	11.5

CASH FLOW INFORMATION

The expected employer contributions for the year 2020 are as follows:

	Pension plans	Other post-employment benefits
Funded (wholly or partly) defined benefit plans	154	–
Unfunded defined benefit plans	30	24
Defined contribution plans	125	–
Total	309	24

ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

Actuarial assumptions

	December 31, 2019		December 31, 2018	
Percentage (%)	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Range of discount rates				
To determine benefit cost	3.4 – 3.9	3.7 – 4.4	3.1 – 3.7	3.5 – 3.8
To determine accrued benefit obligation at year-end	2.6 – 3.2	3.1 – 3.2	3.4 – 3.9	3.7 – 4.4
Weighted average assumptions used to determine benefit cost [1]				
Discount rate	3.6	3.9	3.2	3.6
Rate of compensation increase	3.1	–	3.1	–
Weighted average assumptions used to determine accrued benefit obligation at year-end [1]				
Discount rate	2.9	3.1	3.6	3.9
Rate of compensation increase	3.0	–	3.1	–
Weighted average healthcare trend rates [1]				
Initial healthcare trend rate		4.7		4.9
Ultimate healthcare trend rate		4.1		4.1
Year ultimate trend rate is reached		2039		2040

[1] Weighted based on the obligations of each plan.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

Sample life expectancies based on mortality assumptions

	December 31, 2019		December 31, 2018	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Weighted average life expectancies based on mortality assumptions [1]:				
Male				
Age 65 in fiscal year	22.6	22.4	22.6	22.3
Age 65 for those age 35 in the fiscal year	24.5	23.9	24.6	24.0
Female				
Age 65 in fiscal year	24.8	24.7	24.8	24.8
Age 65 for those age 35 in the fiscal year	26.6	26.2	26.7	26.3

[1] Weighted based on the obligations of each plan.

Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption. The mortality assumptions applied by the Corporation and its subsidiaries take into consideration average life expectancy, including allowances for future longevity improvements as appropriate, and reflect variations in such factors as age, gender and geographic location.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

Impact of changes to assumptions on defined benefit obligation

	December 31, 2019	
	1% increase	1% decrease
Defined benefit pension plans:		
Impact of a change to the discount rate	(1,480)	1,909
Impact of a change to the rate of compensation increase	356	(327)
Impact of a change to the rate of inflation	696	(637)
Other post-employment benefits:		
Impact of a change to the discount rate	(48)	58
Impact of a change to assumed medical cost trend rates	37	(31)

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions and therefore the sensitivity analysis presented may not be representative of the actual change.

NOTE 26 Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end-users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter with counterparties that are credit-worthy financial intermediaries.

The following tables summarize the portfolio of derivative financial instruments of the Corporation and its subsidiaries:

	Notional amount					
December 31, 2019	1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total fair value
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	1,075	2,131	2,493	5,699	198	151
Options purchased	35	184	25	244	–	–
Futures – long	9	3	–	12	–	–
Futures – short	10	7	–	17	–	–
	1,129	2,325	2,518	5,972	198	151
Foreign exchange contracts						
Forward contracts	1,342	–	–	1,342	17	15
Cross-currency swaps	299	2,395	10,345	13,039	209	(1,135)
	1,641	2,395	10,345	14,381	226	(1,120)
Other derivative contracts						
Equity contracts	106	–	–	106	2	2
Futures – long	13	–	–	13	–	–
Futures – short	774	–	–	774	–	(2)
Other forward contracts	1,709	–	–	1,709	2	2
	2,602	–	–	2,602	4	2
	5,372	4,720	12,863	22,955	428	(967)
Fair value hedges						
Foreign exchange contracts						
Forward contracts	74	–	–	74	2	2
Cash flow hedges						
Interest rate contracts						
Forward contracts	122	–	–	122	–	(7)
Swaps	–	60	117	177	11	10
Other derivative contracts						
Equity contracts	20	51	–	71	9	9
	142	111	117	370	20	12
Net investment hedges						
Foreign exchange contracts						
Forward contracts	641	524	–	1,165	24	17
	6,229	5,355	12,980	24,564	474	(936)

NOTE 26 Derivative Financial Instruments (continued)

December 31, 2018	Notional amount 1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total fair value
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	1,007	2,255	2,209	5,471	127	72
Options purchased	47	225	79	351	43	43
Futures – long	46	26	–	72	–	–
	1,100	2,506	2,288	5,894	170	115
Foreign exchange contracts						
Forward contracts	1,066	–	–	1,066	3	(16)
Cross-currency swaps	560	1,968	9,209	11,737	219	(1,224)
	1,626	1,968	9,209	12,803	222	(1,240)
Other derivative contracts						
Equity contracts	637	–	–	637	8	(8)
Futures – long	12	–	–	12	–	–
Futures – short	1,059	–	–	1,059	8	6
Other forward contracts	951	–	–	951	13	13
	2,659	–	–	2,659	29	11
	5,385	4,474	11,497	21,356	421	(1,114)
Cash flow hedges						
Interest rate contracts						
Swaps	–	122	73	195	8	7
Other derivative contracts						
Equity contracts	22	44	–	66	–	(8)
	22	166	73	261	8	(1)
Net investment hedges						
Foreign exchange contracts						
Forward contracts	634	516	–	1,150	5	(48)
	6,041	5,156	11,570	22,767	434	(1,163)

The amount subject to maximum credit risk is limited to the current fair value of the instruments which are in a gain position. The maximum credit risk represents the total cost of all derivative contracts with positive values and does not reflect actual or expected losses. The total fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

NOTE 26 Derivative Financial Instruments (continued)

The Corporation and its subsidiaries use the following derivatives:

Type	Purpose
Interest rate contracts	Interest rate swaps, forward contracts, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations, intermediary operations and debt instruments. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Corporation and its subsidiaries the right to enter into a swap with predetermined fixed rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.
Foreign exchange contracts	Cross-currency swaps are used in combination with other investments to manage foreign exchange risk associated with investment activities and insurance and investment contract liabilities. Under these swaps, principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Corporation and its subsidiaries may also enter into certain foreign exchange forward contracts to hedge certain product liabilities, cash and cash equivalents and cash flows.
Other derivative contracts	Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage the potential credit risk impact of significant declines in certain equity markets. Equity forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Forward agreements and total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges.

The ineffective portion of the cash flow hedges during 2019, which includes interest rate contracts and foreign exchange contracts, and the anticipated net gains (losses) reclassified out of other comprehensive income within the next twelve months is nil. The maximum time frame for which variable cash flows are hedged is 50 years.

ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

The Corporation and its subsidiaries enter into the International Swaps and Derivative Association's (ISDA's) master agreements for transacting over-the-counter derivatives. The Corporation and its subsidiaries receive and pledge collateral according to the related ISDA's Credit Support Annexes. The ISDA's master agreements do not meet the criteria for offsetting on the balance sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with exchanges and clearing houses, there is no provision for set-off at default. Initial margin is excluded from the tables below as it would become part of a pooled settlement process.

NOTE 26 Derivative Financial Instruments (continued)

Lifeco's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between Lifeco and its counterparties in the event of default.

The following disclosure shows the potential effect on the balance sheets of financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the balance sheets.

				December 31, 2019
		Related amounts not set off in the balance sheet		
	Gross amount of financial instruments presented in the balance sheet	Offsetting counterparty position [1]	Financial collateral received / pledged [2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	474	(324)	(107)	43
Reverse repurchase agreements [3]	4	–	(4)	–
	478	(324)	(111)	43
Financial instruments (liabilities)				
Derivative financial instruments	1,410	(324)	(556)	530
	1,410	(324)	(556)	530

				December 31, 2018
		Related amounts not set off in the balance sheet		
	Gross amount of financial instruments presented in the balance sheet	Offsetting counterparty position [1]	Financial collateral received / pledged [2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	434	(292)	(101)	41
Reverse repurchase agreements [3]	15	–	(15)	–
	449	(292)	(116)	41
Financial instruments (liabilities)				
Derivative financial instruments	1,597	(292)	(599)	706
	1,597	(292)	(599)	706

[1] Includes counterparty amounts recognized on the balance sheets where the Corporation and its subsidiaries have a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheets, excluding collateral.

[2] Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $156 million ($113 million at December 31, 2018), received on reverse repurchase agreements was $4 million ($15 million at December 31, 2018), and pledged on derivative liabilities was $634 million ($691 million at December 31, 2018).

[3] Assets related to reverse repurchase agreements are included in bonds on the balance sheets.

NOTE 27 Fair Value Measurement

The following tables present the carrying amounts and fair value of the Corporation's assets and liabilities recorded or disclosed at fair value, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies (Note 2) and below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment. The following tables distinguish between assets and liabilities recorded at fair value on a recurring basis and those for which fair value is disclosed.

These tables exclude fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

December 31, 2019	Carrying value	Level 1	Level 2	Level 3	Total fair value
Assets					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	85,845	-	85,778	67	85,845
Available for sale	12,028	-	12,028	-	12,028
Mortgage and other loans					
Fair value through profit or loss	1,314	-	-	1,314	1,314
Shares					
Fair value through profit or loss	9,925	9,011	118	796	9,925
Available for sale	1,474	743	42	689	1,474
Investment properties	5,887	-	-	5,887	5,887
Funds held by ceding insurers	6,661	216	6,445	-	6,661
Derivative instruments	474	-	470	4	474
Reinsurance assets	127	-	127	-	127
Other assets	1,490	375	1,115	-	1,490
	125,225	10,345	106,123	8,757	125,225
Assets disclosed at fair value					
Bonds					
Loans and receivables	17,372	-	19,281	63	19,344
Mortgage and other loans					
Loans and receivables	30,461	-	24,177	7,243	31,420
Shares					
Available for sale [1]	150	-	-	150	150
Funds held by ceding insurers	80	-	-	80	80
	48,063	-	43,458	7,536	50,994
Total	173,288	10,345	149,581	16,293	176,219
Liabilities					
Liabilities recorded at fair value					
Investment contract liabilities	1,656	-	1,656	-	1,656
Derivative instruments	1,410	3	1,402	5	1,410
Other liabilities	430	43	355	32	430
	3,496	46	3,413	37	3,496
Liabilities disclosed at fair value					
Obligations to securitization entities	6,914	-	-	6,997	6,997
Debentures and other debt instruments	9,938	533	10,918	-	11,451
Deposits and certificates	886	-	887	-	887
	17,738	533	11,805	6,997	19,335
Total	21,234	579	15,218	7,034	22,831

[1] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are recorded at cost.

NOTE 27 Fair Value Measurement (continued)

December 31, 2018	Carrying value	Level 1	Level 2	Level 3	Total fair value
Assets					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	91,815	–	91,748	67	91,815
Available for sale	13,713	–	13,713	–	13,713
Mortgage and other loans					
Fair value through profit or loss	817	–	4	813	817
Shares					
Fair value through profit or loss	8,794	8,341	–	453	8,794
Available for sale	1,329	560	1	768	1,329
Investment properties	5,218	–	–	5,218	5,218
Funds held by ceding insurers	7,155	230	6,925	–	7,155
Derivative instruments	434	8	417	9	434
Assets held for sale [1]	782	22	731	29	782
Other assets	927	597	330	–	927
	130,984	9,758	113,869	7,357	130,984
Assets disclosed at fair value					
Bonds					
Loans and receivables	19,722	–	20,524	95	20,619
Mortgage and other loans					
Loans and receivables	32,080	–	25,119	7,405	32,524
Shares					
Available for sale [2]	239	–	–	239	239
Funds held by ceding insurers	91	–	–	91	91
	52,132	–	45,643	7,830	53,473
Total	183,116	9,758	159,512	15,187	184,457
Liabilities					
Liabilities recorded at fair value					
Investment contract liabilities	1,711	–	1,711	–	1,711
Investment contract liabilities held for sale	27	–	1	26	27
Derivative instruments	1,597	2	1,591	4	1,597
Other liabilities	185	8	84	93	185
	3,520	10	3,387	123	3,520
Liabilities disclosed at fair value					
Obligations to securitization entities	7,370	–	–	7,437	7,437
Debentures and other debt instruments	9,977	567	10,256	–	10,823
Deposits and certificates	622	–	622	–	622
	17,969	567	10,878	7,437	18,882
Total	21,489	577	14,265	7,560	22,402

[1] Excludes cash and cash equivalents and loans to policyholders as the carrying value is a reasonable approximation of the fair value.

[2] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are recorded at cost.

There were no significant transfers between Level 1 and Level 2 in 2019 and 2018.

NOTE 27 Fair Value Measurement (continued)

The Corporation's assets and liabilities recorded at fair value and those for which fair value is disclosed have been categorized based upon the following fair value hierarchy:

Level	Definition	Financial assets and liabilities
Level 1	Utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.	▪ actively exchange-traded equity securities; ▪ exchange-traded futures; ▪ mutual and segregated funds which have available prices in an active market with no redemption restrictions; ▪ open-end investment fund units and other liabilities in instances where there are quoted prices available from active markets.
Level 2	Utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other-than-quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data.	▪ assets and liabilities priced using a matrix which is based on credit quality and average life; ▪ government and agency securities; ▪ restricted shares; ▪ certain private bonds and equities; ▪ most investment-grade and high-yield corporate bonds; ▪ most asset-backed securities; ▪ most over-the-counter derivatives; ▪ most mortgage and other loans; ▪ deposits and certificates; ▪ most debentures and other debt instruments; ▪ most of the investment contracts that are measured at fair value through profit or loss.
Level 3	Utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single-broker quotes, internal pricing models, external appraisers or by discounting projected cash flows.	▪ certain bonds; ▪ certain asset-backed securities; ▪ certain private equities; ▪ certain mortgage and other loans, including equity-release mortgages; ▪ investments in mutual and segregated funds where there are redemption restrictions; ▪ certain over-the-counter derivatives; ▪ investment properties; ▪ obligations to securitization entities; ▪ certain other debt instruments.

NOTE 27 Fair Value Measurement (continued)

The following tables present additional information about assets and liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have utilized Level 3 inputs to determine fair value for the years ended December 31, 2019 and 2018.

	Bonds	Mortgages and other loans	Shares				Assets (liabilities) held for sale and other assets (liabilities)		
December 31, 2019	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss [2]	Available for sale	Investment properties	Derivatives, net		Investment contract liabilities	Total
Balance, beginning of year									
As previously reported	67	813	453	768	5,218	5	(90)	–	7,234
Change in accounting policy [Note 2]	–	–	–	–	29	–	–	–	29
Restated balance, beginning of year	67	813	453	768	5,247	5	(90)	–	7,263
Total gains (losses)									
In net earnings	4	109	64	42	37	(5)	(1)	–	250
In other comprehensive income [1]	(4)	(5)	–	(15)	(36)	–	(1)	–	(61)
Purchases	–	–	346	103	644	(2)	–	–	1,091
Issues	–	469	–	–	–	–	–	–	469
Sales	–	–	(67)	(59)	(5)	–	(26)	–	(157)
Settlements	–	(72)	–	–	–	1	45	–	(26)
Other [3]	–	–	–	(150)	–	–	41	–	(109)
Balance, end of year	67	1,314	796	689	5,887	(1)	(32)	–	8,720

[1] Amount of other comprehensive income for fair value through profit or loss bonds, mortgage and other loans and investment properties represents the unrealized gains (losses) on foreign exchange.

[2] Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

[3] In January 2019, the investment in Personal Capital was reclassified from available for sale to an investment in an associate (Note 8).

	Bonds	Mortgages and other loans	Shares				Assets (liabilities) held for sale and other assets (liabilities)		
December 31, 2018	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss [2]	Available for sale	Investment properties	Derivatives, net		Investment contract liabilities	Total
Balance, beginning of year	65	–	244	832	4,851	4	(88)	(22)	5,886
Total gains (losses)									
In net earnings	–	(24)	28	204	33	(12)	20	–	249
In other comprehensive income [1]	2	20	–	(90)	70	–	–	–	2
Business acquisition	–	799	–	–	–	–	(17)	–	782
Purchases	–	–	249	129	356	–	–	–	734
Issues	–	76	–	–	–	–	–	–	76
Sales	–	–	(68)	(311)	(63)	–	–	–	(442)
Settlements	–	(58)	–	–	–	13	–	–	(45)
Transferred to held for sale	–	–	–	–	(29)	–	3	26	–
Transfers into Level 3	–	–	–	4	–	–	–	–	4
Other	–	–	–	–	–	–	(8)	(4)	(12)
Balance, end of year	67	813	453	768	5,218	5	(90)	–	7,234

[1] Amount of other comprehensive income for fair value through profit or loss bonds, mortgage and other loans and investment properties represents the unrealized gains (losses) on foreign exchange.

[2] Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual funds and segregated funds.

NOTE 27 Fair Value Measurement (continued)

The following table sets out information about significant unobservable inputs used at year-end in measuring assets and liabilities categorized as Level 3 in the fair value hierarchy.

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 2.6% – 10.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.3% – 6.8%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 2.4%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage and other loans (fair value through profit or loss)	The valuation approach for equity-release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no-negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long-term care of the loanholders.	Discount rate	Range of 3.6% – 4.8%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
Shares	The determination of the fair value of shares requires the use of estimates such as future cash flows, discount rates, projected earnings multiples, or recent transactions.	Discount rate	Various	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

NOTE 28 Other Comprehensive Income

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		
Year ended December 31, 2019	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	Total
Balance, beginning of year	201	1,015	763	(488)	(11)	1,480
Other comprehensive income (loss)	160	(293)	284	(98)	(4)	49
Other	–	(28)	(16)	11	–	(33)
Balance, end of year	361	694	1,031	(575)	(15)	1,496

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		
Year ended December 31, 2018	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	Total
Balance, beginning of year	483	617	742	(509)	(12)	1,321
Other comprehensive income (loss)	(282)	398	21	10	1	148
Other	–	–	–	11	–	11
Balance, end of year	201	1,015	763	(488)	(11)	1,480

NOTE 29 Earnings Per Share

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

	Years ended December 31,	
	2019	2018
Earnings		
Net earnings attributable to shareholders	1,160	1,339
Dividends on non-participating shares	(52)	(52)
Net earnings attributable to participating shareholders	1,108	1,287
Dilutive effect of subsidiaries' outstanding stock options	–	(2)
Net earnings adjusted for dilutive effect	1,108	1,285
Number of participating shares [millions]		
Weighted average number of participating shares outstanding – Basic	437.5	465.4
Potential exercise of outstanding stock options	0.4	0.7
Weighted average number of participating shares outstanding – Diluted	437.9	466.1
Net earnings per participating share		
Basic	2.53	2.77
Diluted	2.53	2.76

For 2019, 9.2 million stock options (8.1 million in 2018) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

NOTE 30 Related Parties

PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

The financial statements of Power Corporation include the operations of the following direct and indirect subsidiaries and investments in jointly controlled corporations and associates:

			% equity interest	
Corporations	Incorporated in	Primary business operation	2019	2018
Power Financial Corporation	Canada	Financial services holding company	64.1	65.5
Great-West Lifeco Inc. [1]	Canada	Financial services holding company	70.9	71.8
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100.0	100.0
London Life Insurance Company	Canada	Insurance and wealth management	100.0	100.0
The Canada Life Assurance Company	Canada	Insurance and wealth management	100.0	100.0
Irish Life Group Limited	Ireland	Insurance and wealth management	100.0	100.0
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100.0	100.0
Putnam Investments, LLC [2]	United States	Financial services	96.5	96.7
IGM Financial Inc. [3]	Canada	Wealth and asset management	66.0	65.2
IG Wealth Management	Canada	Financial services	100.0	100.0
Mackenzie Financial Corporation	Canada	Investment manager	100.0	100.0
Parjointco N.V.	Netherlands	Holding company	50.0	50.0
Pargesa Holding SA	Switzerland	Holding company	55.5	55.5
Portag3 Ventures LP [4]	Canada	Investment fund	100.0	100.0
Portag3 Ventures II LP [5]	Canada	Investment fund	27.9	47.0
Wealthsimple Financial Corp. [6]	Canada	Financial services	84.9	81.7
Koho Financial Inc. [7]	Canada	Financial services	54.4	63.4
China Asset Management Co., Ltd. [8]	China	Asset management company	27.8	27.8
Power Energy Corporation	Canada	Holding company	100.0	100.0
Potentia Renewables Inc.	Canada	Renewable energy	100.0	100.0
Nautilus Solar Energy, LLC	United States	Renewable energy	100.0	–
Lumenpulse Group Inc.	Canada	Sustainable energy	60.5	60.5
The Lion Electric Co.	Canada	Sustainable energy	44.2	43.8
Square Victoria Communications Group Inc.	Canada	Holding company	100.0	100.0
Sagard SAS	France	Asset manager	100.0	100.0
152245 Canada Inc.	Canada	Holding company	100.0	100.0
Sagard Capital Partners Management Corp.	United States	Holding company	100.0	100.0
Sagard Holdings ULC	Canada	Alternative asset manager	100.0	100.0
Peak Achievement Athletics Inc.	Canada	Manufacturer of sports equipment and apparel	42.6	42.6
Sagard Capital Partners, LP	United States	Investment fund	100.0	100.0
IntegraMed America, Inc.	United States	Healthcare services	91.6	91.6
Sagard Credit Partners, LP	Canada	Credit fund	18.0	18.0

[1] Power Financial holds a 66.9% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco.

[2] Lifeco holds 100% of the voting shares and 96.5% of the total outstanding shares.

[3] Power Financial holds a 62.1% equity interest and The Great-West Life Assurance Company holds a 3.9% equity interest in IGM Financial.

[4] Power Financial holds a 63.0% equity interest and Lifeco and IGM Financial each hold an equity interest of 18.5% in Portag3.

[5] Power Financial, Lifeco and IGM Financial each hold an equal equity interest of 7.7% in Portag3 II and Sagard Holdings ULC, holds 4.7% equity interest in Portag3 II.

[6] Power Financial, Portag3 and IGM Financial hold an equity interest of 21.2%, 16.8% and 46.9%, respectively, in Wealthsimple.

[7] Power Financial, Lifeco and IGM Financial hold equal interests of 6.5% and Portag3 and Portag3 II hold interests of 2.7% and 32.1%, respectively, in Koho.

[8] Power Corporation and Mackenzie Investments each hold an equity interest of 13.9% in China AMC.

NOTE 30 Related Parties (continued)

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Power Corporation and its subsidiaries enter into various transactions: subsidiaries provide insurance benefits, sub-advisory services, distribution of insurance products and/or other administrative services to other subsidiaries of the group and to the Corporation; loans to employees; as well as capital commitments to investment funds, performance fees and base management fees paid to subsidiaries of the group. In all cases, these transactions are in the normal course of operations and have been recorded at fair value. Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of other transactions between the Corporation and related parties are disclosed below.

In 2019, IGM sold residential mortgage loans to Great-West Life and London Life for $11 million ($61 million in 2018).

In October 2017, IGM and a subsidiary of Power Corporation obtained advanced tax rulings which permitted tax loss consolidation transactions, whereby shares of a subsidiary that has generated tax losses may be acquired by IGM in each year up to and including 2020. The Corporation recognized the benefit of the tax losses to be realized throughout this program. The program was renewed and extended to 2020.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Corporation, Power Financial and Lifeco and its subsidiaries.

KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The persons included in the key management personnel are the members of the Board of Directors of the Corporation, as well as certain management executives of the Corporation and its subsidiaries.

The following table describes all compensation paid to, awarded to, or earned by each of the key management personnel for services rendered in all capacities to the Corporation and its subsidiaries:

	Years ended December 31,	
	2019	2018
Compensation and employee benefits	31	25
Post-employment benefits	5	3
Share-based payments	26	23
	62	51

NOTE 31 Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. Provisions are established if, in management of the Corporation and of its subsidiaries' judgment, it is probable a payment will be required and the amount can be reliably estimated. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation. Actual results could differ from the best estimates of the Corporation's and its subsidiaries' management.

LIFECO

A subsidiary of Lifeco in the United States is a defendant in an action in relation to its role as collateral manager of a collateralized debt obligation brought by an institution involved in the collateralized debt obligation. Lifeco's management believes the resolution of this matter will not have a material adverse effect on Lifeco's consolidated financial position.

Subsidiaries of Lifeco in the United States are defendants in legal actions, including class actions, relating to the administration of their staff retirement plans, or to the costs and features of certain of their retirement or fund products. Management of Lifeco believes the claims are without merit and will be aggressively defending these actions. Based on the information presently known Lifeco's management believes these actions will not have a material adverse effect on Lifeco's consolidated financial position.

A subsidiary of Lifeco, as reinsurer, is involved in an arbitration relating to the interpretation of certain provisions of a reinsurance treaty and the alleged underreporting of claims and overpayment of premium. Based on information presently known, it is difficult for Lifeco to predict the outcome of this matter with certainty, but this matter is not expected to have a material adverse effect on Lifeco's consolidated financial position.

IGM FINANCIAL

In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie Financial Corporation, a subsidiary of IGM, which alleges that Mackenzie should not have paid mutual fund trailing commissions to order-execution-only dealers. Although it is difficult to predict the outcome of any such legal action, based on current knowledge of IGM's management and their consultation with their legal counsel, they do not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on IGM's consolidated financial position.

NOTE 32 Commitments and Guarantees

GUARANTEES

In the normal course of operations, the Corporation and its subsidiaries execute agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions and performance contract obligations. The Corporation and its subsidiaries have also agreed to indemnify their directors and certain of their officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation and its subsidiaries could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements. No provisions have been recognized related to these agreements.

LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities at Lifeco is US$2.3 billion, of which US$1.8 billion were issued as of December 31, 2019.

The Reinsurance operation also periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance-sheet policy liabilities.

Potentia Renewables Inc. (Potentia) has issued letters of credit totalling $83 million with one-year terms to support required lender reserves and performance guarantees for operating solar assets and awarded wind power purchase agreements.

INVESTMENT COMMITMENTS

With respect to Lifeco, commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines and that are to be disbursed upon fulfilment of certain contract conditions were $1,042 million as at December 31, 2019, with $1,006 million maturing within one year and $19 million maturing within two years and $17 million maturing within three years.

The Corporation and other subsidiaries have outstanding commitments of $231 million representing future capital contributions to investment funds. Subsequent to year-end, the Corporation committed to invest $219 million in an investment fund.

PLEDGING OF ASSETS FOR REINSURANCE AGREEMENTS

In addition to the assets pledged by Lifeco disclosed elsewhere in the financial statements:

(i) The amount of assets included in the Corporation's balance sheet which have a security interest by way of pledging is $1,456 million ($1,464 million at December 31, 2018) in respect of reinsurance agreements.

In addition, under certain reinsurance contracts, bonds presented in portfolio investments are held in trust and escrow accounts. Assets are placed in these accounts pursuant to the requirements of certain legal and contractual obligations to support contract liabilities assumed.

(ii) Lifeco has pledged, in the normal course of business, $75 million ($76 million at December 31, 2018) of its assets for the purpose of providing collateral for the counterparty.

ENERGY SALES CONTRACTS

Potentia, a wholly owned subsidiary of Power Energy, has entered into various power purchase agreements (PPA) to sell substantially all electricity produced from its solar and wind projects to credit-rated counterparties. The contract rates are fixed for a period of 20 to 25 years.

In 2018, Potentia signed a 25-year PPA for 200MW of wind electricity with Saskatchewan Power Corporation and three 20-year PPAs for 307MW of wind electricity in Alberta. Contracts will be effective when the wind farms are commissioned. Commercial operations are expected to commence as early as 2021.

Potentia has entered into construction and turbine purchase contracts related to the Saskatchewan and Alberta wind projects under development of $188 million.

The Corporation have issued certain performance guarantees in relation to these agreements.

NOTE 33 Subsequent Events

POWER CORPORATION

Reorganization

On December 13, 2019, the Corporation and Power Financial announced the execution of a definitive agreement to effect a reorganization transaction (Reorganization) pursuant to which each common share of Power Financial held by holders of Power Financial Common Shares other than the Corporation and certain of its affiliates (PFC Minority Shareholders), will be exchanged for 1.05 Subordinate Voting Shares of the Corporation and $0.01 in cash.

On February 13, 2020, the Corporation successfully completed the Reorganization. The Corporation acquired 238,693,580 Power Financial Common Shares and issued 250,628,173 Subordinate Voting Shares at a price of $34.66 per Subordinate Voting Share, representing a consideration of $8.7 billion. Subsequent to the Reorganization, the Corporation holds 100% of the issued and outstanding Power Financial Common Shares. The increase in ownership in Power Financial will result in a dilution loss to be recorded in retained earnings and reserves and a decrease in non-controlling interests in the statements of changes in equity. Costs related to the transaction will be recognized in the statements of changes in equity in retained earnings at the closing of the transaction.

In accordance with the Pre-emptive Right in favour of holders of Participating Preferred Shares included in the Corporation's articles, the Corporation provided a notice of offer (the Offer) dated January 10, 2020 to the holders of the Participating Preferred Shares. The Offer provided for, among other things, the right of such holders to acquire from the Corporation, on a pro rata basis, such number of Participating Preferred Shares that is equal to 12% of the number of Subordinate Voting Shares expected to be issued in connection with the Reorganization for a consideration per Participating Preferred Share that is equal to the stated capital amount per share for which any such Subordinate Voting Shares were issued.

On February 12, 2020, in connection with the Reorganization, and in accordance with the Pre-emptive Right, the Corporation issued 6,006,094 Participating Preferred Shares to holders who duly exercised the Pre-Emptive Right at a price of $34.27 per Participating Preferred Share. Pansolo Holding Inc., a holding company controlled by the Desmarais Family Residuary Trust, purchased 6 million Participating Preferred Shares on February 12, 2020.

Stock Option Plan

As part of the Reorganization, the Corporation assumes the Power Financial stock option plan. The 13,079,888 options outstanding at February 13, 2020 under the Power Financial Employee Stock Option Plan (Existing Options) were exchanged for options to acquire Subordinate Voting Shares of the Corporation (Replacement Options).

The Replacement Options entitle the option holders to receive 1.05 Subordinate Voting Shares of Power Corporation (PCC Shares) for each common share of Power Financial (PFC Shares) at a subscription price per PCC Share equal to the subscription price per PFC Share, under the existing Stock Option Plan, divided by 1.05. The other terms of the Replacement Options are the same as the terms of the Existing Options, including terms with respect to vesting and expiry of options and termination of employment. A total of 13,733,876 Subordinate Voting Shares are reserved for issuance upon the exercise of the Replacement Options.

Normal Course Issuer Bid

The Corporation commenced a Normal Course Issuer Bid (NCIB) on February 20, 2020 which is effective until the earlier of February 19, 2021 and the date on which the Corporation has purchased the maximum permitted number of Subordinate Voting Shares. Pursuant to this bid, the Corporation may purchase up to 30 million of its Subordinate Voting Shares outstanding as at February 20, 2020 (representing approximately 5.2% of the public float of Subordinate Voting Shares outstanding).

In connection with its NCIB, the Corporation entered into an automatic securities purchase plan for its Subordinate Voting Shares. The automatic securities purchase plan provides standard instructions regarding how the Corporation's Subordinate Voting Shares are to be purchased under its NCIB during certain predetermined trading blackout periods. Outside of these predetermined trading blackout periods, purchases under the Corporation's NCIB will be completed based upon management's discretion.

NOTE 33 Subsequent Events (continued)

LIFECO

Irish Progressive Services International Limited

On February 10, 2020, Irish Life announced the sale of Irish Progressive Services International Limited, a wholly owned subsidiary of Lifeco whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The proposed transaction will be subject to customary closing conditions including receipt of required regulatory approvals and is expected to be completed in the second half of 2020. Lifeco expects to recognize a gain related to this transaction. The carrying value and earnings of the business are immaterial to the Corporation.

PARGESA

On March 11, 2020 Parjointco and Pargesa announced an agreement for a proposed transaction that would simplify the group structure. As per the agreement, a public exchange offer will be initiated by Parjointco for all Pargesa shares not already owned by Parjointco under which Pargesa shareholders will be entitled to receive 0.93 shares of GBL for each Pargesa bearer share they hold. Following the proposed transaction, it is anticipated that Pargesa will be delisted from the SIX Swiss Exchange and Parjointco is expected to retain de facto control and maintain approximately the same economic equity interest in GBL of 28%. The proposed transaction will be subject to Parjointco holding or having received shareholder acceptances with respect to at least 90% of Pargesa's total voting rights and is conditional upon GBL shareholders approving the implementation of double-voting rights at GBL's extraordinary shareholders meeting to be held on April 28, 2020.

COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

NOTE 34 Segmented Information

The Corporation's reportable operating segments are Lifeco, IGM Financial and Pargesa. These reportable segments reflect Power Corporation's management structure and internal financial reporting. The Corporation evaluates the performance based on the operating segment's contribution to earnings. The following provides a brief description of the three reportable operating segments:

- Lifeco is a financial services holding company with interests in life insurance, health insurance, retirement and investment management services, asset management and reinsurance businesses primarily in Canada, the United States and Europe.
- IGM Financial is a leading wealth and asset management company operating in Canada primarily within the advice segment of the financial services market. IGM earns revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenues from fees charged to its mutual funds for administrative services.
- Pargesa is held through Parjointco. Pargesa is a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialty solutions for industry; testing, inspection and certification; cement, aggregates and concrete; wines and spirits; design and distribution of sportswear; materials technology and recycling of precious metals; oil, gas and chemical industries; disposable hygiene products; supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors; operation of regional leisure parks; and provider of customer experience and business process outsourcing.

The column entitled "Corporate" is comprised of corporate activities of Power Financial and the results of Wealthsimple, Portag3 and Portag3 II. This column also includes consolidation elimination entries.

The column entitled "Other" is comprised of corporate and investment activities of Power Corporation. It includes the results of Power Energy, IntegraMed and Square Victoria Communications Group (up to July 14, 2018). This column also includes Power Corporation's consolidation elimination entries.

Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets.

The contribution to earnings of each segment includes the share of net earnings resulting from the investments that Lifeco and IGM have in each other as well as certain consolidation adjustments.

NOTE 34 Segmented Information (continued)

CONSOLIDATED NET EARNINGS

For the year ended December 31, 2019	Lifeco [1]	IGM [2]	Pargesa	Power Financial Corporate	Power Financial Sub-total	Other	Total
Revenues							
Total net premiums	24,510	-	-	(21)	24,489	-	24,489
Net investment income	13,107	169	-	(29)	13,247	195	13,442
Fee income	7,081	3,051	-	(66)	10,066	15	10,081
Other revenues	-	-	-	-	-	829	829
Total revenues	44,698	3,220	-	(116)	47,802	1,039	48,841
Expenses							
Total paid or credited to policyholders	33,091	-	-	-	33,091	-	33,091
Commissions	2,429	1,101	-	(50)	3,480	-	3,480
Operating and administrative expenses	6,013	1,055	-	169	7,237	1,104	8,341
Financing charges	285	108	-	42	435	109	544
Total expenses	41,818	2,264	-	161	44,243	1,213	45,456
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,880	956	-	(277)	3,559	(174)	3,385
Share of earnings of investments in jointly controlled corporations and associates	-	13	193	5	211	1	212
Earnings before income taxes	2,880	969	193	(272)	3,770	(173)	3,597
Income taxes	373	220	-	8	601	(47)	554
Net earnings	2,507	749	193	(280)	3,169	(126)	3,043
Attributable to							
Non-controlling interests	1,489	458	68	(111)	1,904	(21)	1,883
Non-participating shareholders	-	-	-	-	-	52	52
Participating shareholders	1,018	291	125	(169)	1,265	(157)	1,108
	2,507	749	193	(280)	3,169	(126)	3,043

[1] Includes the loss on the reinsurance transaction with Protective Life of $247 million ($199 million after tax) (Note 3) and the impact of the $199 million decrease in the deferred income tax asset (Note 17).

[2] Results reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

NOTE 34 Segmented Information (continued)

TOTAL ASSETS AND LIABILITIES

				Power Financial			
December 31, 2019	Lifeco	IGM [2]	Pargesa	Corporate	Sub-total	Other	Total
Investments and cash and cash equivalents	168,229	7,984	-	1,307	177,520	2,342	179,862
Investments in jointly controlled corporations and associates	53	857	3,954	38	4,902	991	5,893
Other assets	40,974	1,472	-	400	42,846	1,460	44,306
Goodwill and intangible assets	10,844	4,067	-	171	15,082	1,085	16,167
Investments on account of segregated fund policyholders	231,022	-	-	-	231,022	-	231,022
Total assets [1]	451,122	14,380	3,954	1,916	471,372	5,878	477,250
Total liabilities	425,624	10,892	-	1,144	437,660	3,005	440,665

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

[2] Assets reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2019	Canada	United States	Europe	Total
Investments and cash and cash equivalents	90,917	33,072	55,873	179,862
Investments in jointly controlled corporations and associates	1,420	471	4,002	5,893
Other assets	6,746	19,911	17,649	44,306
Goodwill and intangible assets	11,049	2,183	2,935	16,167
Investments on account of segregated fund policyholders	85,612	31,433	113,977	231,022
Total assets	195,744	87,070	194,436	477,250
Total revenues	24,601	(2,042)	26,282	48,841

NOTE 34 Segmented Information (continued)

CONSOLIDATED NET EARNINGS

				Power Financial			
For the year ended December 31, 2018	Lifeco	IGM [1]	Pargesa	Corporate	Sub-total	Other	Total
Revenues							
Total net premiums	35,461	–	–	(21)	35,440	–	35,440
Net investment income	2,752	183	–	(113)	2,822	247	3,069
Fee income	5,819	3,037	–	(93)	8,763	13	8,776
Other revenues	–	–	–	–	–	813	813
Total revenues	44,032	3,220	–	(227)	47,025	1,073	48,098
Expenses							
Total paid or credited to policyholders	32,068	–	–	–	32,068	–	32,068
Commissions	2,474	1,099	–	(61)	3,512	–	3,512
Operating and administrative expenses	5,807	1,043	–	147	6,997	1,178	8,175
Financing charges	221	121	–	18	360	102	462
Total expenses	40,570	2,263	–	104	42,937	1,280	44,217
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,462	957	–	(331)	4,088	(207)	3,881
Share of earnings of investments in jointly controlled corporations and associates	–	29	57	8	94	70	164
Earnings before income taxes	3,462	986	57	(323)	4,182	(137)	4,045
Income taxes	387	210	–	5	602	(24)	578
Net earnings	3,075	776	57	(328)	3,580	(113)	3,467
Attributable to							
Non-controlling interests	1,763	481	20	(158)	2,106	22	2,128
Non-participating shareholders	–	–	–	–	–	52	52
Participating shareholders	1,312	295	37	(170)	1,474	(187)	1,287
	3,075	776	57	(328)	3,580	(113)	3,467

[1] Results reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

NOTE 34 Segmented Information (continued)

TOTAL ASSETS AND LIABILITIES

				Power Financial			
December 31, 2018	Lifeco	IGM[2]	Pargesa	Corporate	Sub-total	Other	Total
Investments and cash and cash equivalents	177,013	8,639	–	1,151	186,803	2,294	189,097
Assets held for sale	897	–	–	–	897	–	897
Investments in jointly controlled corporations and associates	8	683	3,291	27	4,009	1,078	5,087
Other assets	25,941	1,259	–	125	27,325	841	28,166
Goodwill and intangible assets	10,984	4,028	–	163	15,175	1,035	16,210
Investments on account of segregated fund policyholders	209,527	–	–	–	209,527	–	209,527
Investments on account of segregated fund policyholders held for sale	3,319	–	–	–	3,319	–	3,319
Total assets [1]	427,689	14,609	3,291	1,466	447,055	5,248	452,303
Total liabilities	400,291	11,007	–	808	412,106	2,151	414,257

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

[2] Assets reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2018	Canada	United States	Europe	Total
Investments and cash and cash equivalents	86,103	47,775	55,219	189,097
Assets held for sale	–	–	897	897
Investments in jointly controlled corporations and associates	1,447	347	3,293	5,087
Other assets	5,172	4,623	18,371	28,166
Goodwill and intangible assets	10,890	2,346	2,974	16,210
Investments on account of segregated fund policyholders	76,633	31,816	101,078	209,527
Investments on account of segregated fund policyholders held for sale	–	–	3,319	3,319
Total assets	180,245	86,907	185,151	452,303
Total revenues	19,345	8,406	20,347	48,098

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Power Corporation of Canada

Opinion

We have audited the consolidated financial statements of Power Corporation of Canada (the "Corporation"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis, and
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Benoit B. Patry.

Signed,
Deloitte LLP [1]

[1] CPA auditor, CA, public accountancy permit No. A110092

March 18, 2020

Montréal, Québec

FIVE-YEAR FINANCIAL SUMMARY

December 31, [in millions of Canadian dollars, except per share amounts] (unaudited)	2019	2018	2017	2016	2015
Consolidated Balance Sheets					
Cash and cash equivalents	6,805	6,441	5,903	5,182	5,085
Total assets	477,250	452,303	445,521	422,724	422,859
Shareholders' equity	14,174	15,118	14,615	13,864	13,978
Consolidated Statements of Earnings					
Revenues					
Total net premiums	24,489	35,440	33,880	31,125	24,501
Net investment income	13,442	3,069	8,074	10,335	4,869
Fee income	10,081	8,776	8,510	7,794	7,692
Other revenues	829	813	898	1,496	1,203
Total revenues	48,841	48,098	51,362	50,750	38,265
Expenses					
Total paid or credited to policyholders	33,091	32,068	35,643	34,675	22,842
Commissions	3,480	3,512	3,712	3,590	3,133
Operating and administrative expenses	8,341	8,175	8,132	8,023	7,239
Financing charges	544	462	512	490	480
Total expenses	45,456	44,217	47,999	46,778	33,694
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,385	3,881	3,363	3,972	4,571
Share of earnings (losses) of investments in jointly controlled corporations and associates	212	164	214	(122)	213
Earnings before income taxes	3,597	4,045	3,577	3,850	4,784
Income taxes	554	578	543	587	685
Net earnings	3,043	3,467	3,034	3,263	4,099
Attributable to					
Non-controlling interests	1,883	2,128	1,696	2,129	2,261
Non-participating shareholders	52	52	52	52	52
Participating shareholders	1,108	1,287	1,286	1,082	1,786
	3,043	3,467	3,034	3,263	4,099
Per share					
Net earnings attributable to participating shareholders	2.53	2.77	2.77	2.33	3.86
Adjusted net earnings attributable to participating shareholders [1]	3.00	3.09	3.36	2.64	3.40
Dividends declared on participating shares	2.00	1.50	1.41	1.32	1.22
Book value per participating share	30.98	30.38	29.40	27.84	28.08
Market price (Participating shares)					
High	34.42	32.56	33.68	31.03	34.57
Low	24.47	23.57	28.65	26.77	27.15
Year-end	33.45	24.53	32.37	30.05	28.94

[1] Please refer to the annual MD&A for non-IFRS financial measure definition.

QUARTERLY FINANCIAL INFORMATION

[in millions of Canadian dollars, except per share amounts] (unaudited)	Fourth quarter	Third quarter	Second quarter	First quarter
2019				
Total revenues	11,729	15,422	3,824	17,866
Net earnings	570	971	710	792
Net earnings attributable to participating shareholders	179	359	278	292
Earnings per share attributable to participating shareholders				
– Basic	0.42	0.84	0.64	0.63
– Diluted	0.42	0.84	0.64	0.63
2018				
Total revenues	12,661	12,972	11,609	10,856
Net earnings	742	688	969	1,068
Net earnings attributable to participating shareholders	229	186	347	525
Earnings per share attributable to participating shareholders				
– Basic	0.49	0.40	0.75	1.13
– Diluted	0.49	0.40	0.74	1.13

Power Financial Corporation

PART B

Management's Discussion and Analysis

PAGE B 2

Financial Statements and Notes

PAGE B 61

The attached documents concerning Power Financial Corporation are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Forward-Looking Statements. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

Management's Discussion and Analysis

MARCH 18, 2020

ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.

The following presents Management's Discussion and Analysis (MD&A) of the consolidated financial condition and financial performance of Power Financial Corporation (Power Financial or the Corporation), a reporting issuer in all of the provinces and territories of Canada, for the twelve-month and three-month periods ended December 31, 2019. This MD&A should be read in conjunction with the audited consolidated financial statements of Power Financial and notes thereto for the twelve-month period ended December 31, 2019 (the 2019 Consolidated Financial Statements). Additional information relating to Power Financial, including its Annual Information Form, may be found on the Corporation's website at www.powerfinancial.com and on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS › Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries including the fintech strategy, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, the intended effects of the Reorganization (as defined herein) and the proposed redemption by the Corporation and Power Corporation of certain classes of their First Preferred Shares. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, fluctuations in interest rates, inflation and foreign exchange rates, monetary policies, business investment and the health of local and global equity and capital markets, management of market liquidity and funding risks, risks related to investments in private companies and illiquid securities, risks associated with financial instruments, changes in accounting policies and methods used to report financial condition (including uncertainties associated with significant judgments, estimates and assumptions), the effect of applying future accounting changes, business competition, operational and reputational risks, technological changes, cybersecurity risks, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, manmade disasters, terrorist attacks, wars and other conflicts, or an outbreak of a public health pandemic or other public health crises, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the availability of cash to redeem First Preferred Shares and that the list of factors in the previous paragraph, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

Other than as specifically required by applicable Canadian law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Corporation's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this MD&A and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available at www.sedar.com.

The following abbreviations are used throughout this report:

Adidas	adidas AG
BME	Madrid Stock Exchange
Burberry	Burberry Group plc
Canada Life	The Canada Life Assurance Company
China AMC	China Asset Management Co., Ltd.
EBR	Euronext Brussels
EPA	Euronext Paris
GBL	Groupe Bruxelles Lambert
GEA	GEA Group
Great-West Life	The Great-West Life Assurance Company
Great-West Life & Annuity or Empower Retirement	Great-West Life & Annuity Insurance Company
IFRS	International Financial Reporting Standards
IGM or IGM Financial	IGM Financial Inc.
IG Wealth Management	Investors Group Inc.
Investment Planning Counsel	Investment Planning Counsel Inc.
Irish Life	Irish Life Group Limited
Koho	KOHO Financial Inc.
LafargeHolcim	LafargeHolcim Ltd
Lifeco	Great-West Lifeco Inc.
London Life	London Life Insurance Company
Mackenzie or Mackenzie Investments	Mackenzie Financial Corporation
Ontex	Ontex N.V.
PanAgora	PanAgora Asset Management, Inc.
Pargesa	Pargesa Holding SA
Parjointco	Parjointco N.V.
Parques	Parques Reunidos Servicios Centrales, S.A.
Personal Capital	Personal Capital Corporation
Portag3	Portag3 Ventures Limited Partnership
Portag3 II	Portag3 Ventures II Limited Partnership
Power Corporation	Power Corporation of Canada
Putnam	Putnam Investments, LLC
Sagard Holdings	Sagard Holdings ULC
SGS	SGS SA
SIX	Swiss Stock Exchange
Total	Total SA
Umicore	Umicore, NV/SA
Wealthsimple	Wealthsimple Financial Corp.
Webhelp	Webhelp Group
XETR	XETRA Stock Exchange

Organization of the Annual MD&A

	Page
Overview	
Power Financial Corporation	4
2019 Highlights	5
Lifeco	7
IGM Financial	8
Pargesa and GBL	9
Portag3, Wealthsimple and Koho	10
Basis of Presentation	11
IFRS Financial Measures and Presentation	11
Non-IFRS Financial Measures and Presentation	13
Reconciliation of IFRS and Non-IFRS Financial Measures	14
Results of Power Financial	14
Consolidated Statements of Earnings	15
Non-Consolidated Statements of Earnings	17
Contribution to Net Earnings and Adjusted Net Earnings	18
Financial Position	33
Net Asset Value	37
Cash Flows	38
Capital Management	40
Risk Management	42
Financial Instruments and Other Instruments	46
Off-Balance Sheet Arrangements	48
Contingent Liabilities	49
Commitments and Contractual Obligations	49
Income Taxes	49
Transactions with Related Parties	50
Summary of Critical Accounting Estimates and Judgments	50
Changes in Accounting Policies	54
Future Accounting Changes	56
Disclosure Controls and Procedures	58
Internal Control over Financial Reporting	58
Selected Annual Information	59
Summary of Quarterly Results	60

Overview

POWER FINANCIAL CORPORATION

Power Financial, a wholly owned subsidiary of Power Corporation of Canada (TSX: POW; POW.PR.E) is an international management and holding company with interests in financial services and asset management businesses in Canada, the United States and Europe. Founded in 1984 with the ambition of creating an integrated financial services group, Power Financial has remained committed to the growth and evolution of its primary holdings through its controlling interests in Lifeco and IGM, and in recent years has implemented an active fintech strategy. Power Financial also has significant holdings in a portfolio of global companies based in Europe through its investment in Pargesa. Power Financial's historic and ongoing objective is to create superior shareholder value over the long term.

Since its inception, the leadership of Power Financial has remained consistent in its approach to base decisions on what is in the best long-term interest of the Corporation. Throughout its history, Power Financial has managed to the same basic principles:

- take a long-term perspective and investment horizon;
- build industry leaders with attractive growth profiles;
- provide active and strong governance oversight of its companies; and
- use prudence, be risk aware and maintain a strong financial position.

Holdings

Lifeco and IGM are leaders across the insurance, asset management, and wealth and retirement business sectors in their principal markets: Canada, the U.S. and Europe.

Power Financial, in partnership with Lifeco and IGM, has been actively participating in the emerging fintech industry. The group believes that fintech will change business models in financial services, making financial advice, insurance and investment services more accessible to consumers and available to them by the means and at the time that best suits them. The fintech strategy aims at providing an attractive return on the capital invested while helping the existing financial services businesses transform their models.

The investments to date have contributed to building leading platforms that are expected to be part of the next generation of financial services. The fintech strategy enables the group to learn from, adopt and integrate new technologies and understand how these disruptive business models will affect the current business and how to react to changes in the environment to be more effective. The fintech strategy has three objectives:

- Through the Portag3 funds, create an ecosystem of early-stage investments in promising fintech companies that have potential for global impact;
- Make significant investments in leading digital financial services providers including Wealthsimple, one of Canada's largest digital financial advisors; and
- Develop a fintech venture builder to support the creation of the next generation of Canadian-based global fintech companies.

Power Financial also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa, a holding company which, through its subsidiary GBL, maintains a diversified high-quality portfolio composed of global companies that are leaders in their respective sector, through which it can contribute to value creation as an active professional investor. The Pargesa group has positioned its portfolio with a view to strengthening its growth profile and consequently optimizing its potential for long-term value creation. Pargesa shares the values and prudent investing approach of Power Financial. This investment provides Power Financial with a vehicle to create value in the European market.

2019 HIGHLIGHTS

Substantial Issuer Bids

On April 17, 2019, Lifeco completed a substantial issuer bid (Lifeco SIB), and purchased for cancellation 59,700,974 of its common shares, representing approximately 6.0% of the issued and outstanding common shares prior to the repurchase, at a purchase price of $33.50 per common share, for an aggregate amount of $2.0 billion. Power Financial supported Lifeco through its participation in the Lifeco SIB. As a result of the Lifeco SIB, the Corporation's equity interest in Lifeco decreased from 67.8% to 66.8% (excluding IGM's 4.0% interest) after giving effect to the cancellation of Lifeco common shares. IGM also participated in the Lifeco SIB, tendering on a proportionate basis.

Power Financial used the proceeds from its participation in the Lifeco SIB to fund its own substantial issuer bid (PFC SIB). On April 17, 2019, Power Financial completed the PFC SIB, and purchased for cancellation 49,999,973 of its common shares, representing approximately 7.0% of the issued and outstanding common shares prior to the repurchase, at a purchase price of $33.00 per common share, for an aggregate amount of $1.65 billion. The PFC SIB allowed the Corporation to return capital to shareholders, while maintaining a strong capital position to fund future growth opportunities.

Reorganization

On December 13, 2019, the Corporation and Power Corporation announced the execution of a definitive agreement to effect a reorganization transaction (Reorganization) pursuant to which each common share of the Corporation held by holders of common shares of the Corporation other than Power Corporation and certain of its affiliates (PFC Minority Shareholders), would be exchanged for 1.05 subordinate voting shares of Power Corporation (PCC Subordinate Voting Shares) and $0.01 in cash. At the same time, the Corporation and Power Corporation also announced the intention, following completion of the Reorganization, to redeem an aggregate of $350 million of certain classes of the Corporation's and Power Corporation's, respective First Preferred Shares with available cash, which is anticipated to reduce annual financing costs of approximately $15 million per year. At December 31, 2019, the Corporation incurred $9 million of costs related to this transaction, primarily related to legal and financial advisor fees, which have been included in Other items.

On February 13, 2020, subsequent to year-end, the Corporation successfully completed the Reorganization. Power Corporation acquired 238,693,580 common shares of the Corporation and issued 250,628,173 PCC Subordinate Voting Shares to PFC Minority Shareholders. Power Corporation now holds 100% of the issued and outstanding common shares of the Corporation, which were delisted from the TSX. The Corporation remains a reporting issuer in all of the provinces and territories of Canada as its First Preferred Shares and the Corporation's 6.9% debentures due March 11, 2033 remain outstanding.

The Reorganization is intended to simplify the group's corporate structure and serve as the foundation and catalyst for a broader set of strategic initiatives expected to deliver further value to shareholders.

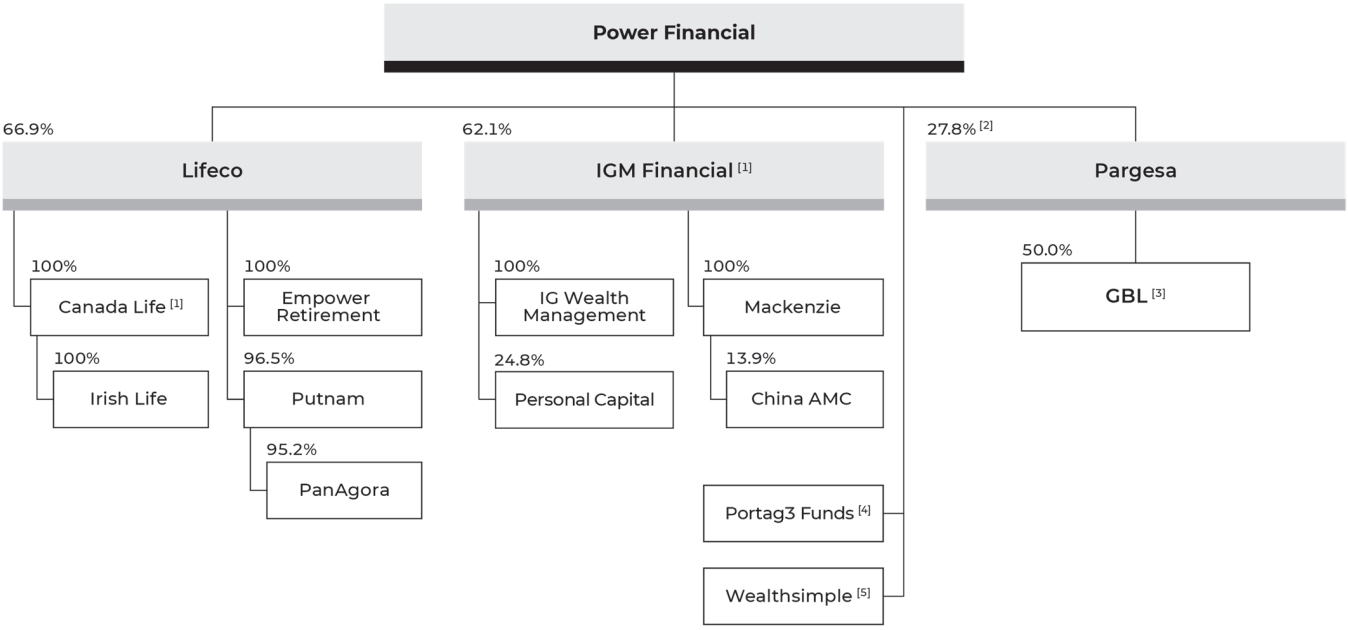
ORGANIZATION OF THE MD&A

The Corporation's MD&A consists of four parts:

- Part B – Power Financial, presented on a consolidated and non-consolidated basis;
- Part C – Lifeco's annual MD&A, as prepared and disclosed by Lifeco in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from Lifeco's website (www.greatwestlifeco.com);
- Part D – IGM's annual MD&A, as prepared and disclosed by IGM in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from IGM's website (www.igmfinancial.com);
- Part E – Pargesa's financial results, derived from publicly disclosed information, as issued by Pargesa in its end-of-year press release. Further information on Pargesa's results is available on its website (www.pargesa.ch).

Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. Pargesa is a public company listed on the Swiss Stock Exchange (SIX: PARG). Market capitalizations reported in the following sections are at December 31, 2019.

The following chart reflects the economic interests held by the Corporation in its operating subsidiaries and certain other investments at December 31, 2019.



In bold: Publicly listed holdings

[1] On January 1, 2020, Great-West Life, London Life and Canada Life amalgamated into a single company: Canada Life. Great-West Life holds a 3.9% interest in IGM, and IGM holds a 4.0% interest in Lifeco.

[2] Held through Parjointco, a jointly controlled corporation (50%).

[3] Refer to the "Pargesa and GBL" section for a list of investments in public companies.

[4] Power Financial holds a 63% interest, and Lifeco and IGM also hold equal interests of 18.5%, in Portag3. Power Financial, Lifeco and IGM also hold equal interests of 7.7% in Portag3 II.

[5] Power Financial holds a 21.2% interest, and Portag3 and IGM also hold interests of 16.8% and 46.9%, respectively, in Wealthsimple.

LIFECO

Great-West Lifeco Inc., TSX: GWO; market capitalization of $30.8 billion at December 31, 2019, is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Lifeco operates in Canada, the United States and Europe under the brands Canada Life, Empower Retirement, Putnam Investments and Irish Life. For reporting purposes, Lifeco has four reportable segments: Canada, the United States, Europe and Corporate, which reflect geographic lines as well as the management and corporate structure of the companies.

In Canada, through the Individual Customer and Group Customer business units, Lifeco offers a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, including life, disability and critical illness insurance products as well as wealth savings and income and other speciality products. On April 3, 2019, Lifeco announced that its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, would be moving to one brand in Canada: Canada Life. Canada Life has become the brand under which the organization creates, delivers and communicates products and services in Canada across all of its lines of business. On January 1, 2020, Great-West Life, London Life and Canada Life amalgamated into a single life insurance company: The Canada Life Assurance Company.

The United States segment operates two primary business units, Financial Services and Asset Management. Empower Retirement, the Financial Services unit, is a leading provider of employer-sponsored defined contribution plans, administrative and record-keeping services, individual retirement accounts, fund management as well as investment and advisory services. The Asset Management unit, Putnam, provides investment management, certain administrative functions, and distribution services as well as offers a broad range of investment products, including equity, fixed income, absolute return and alternative strategies. PanAgora, a Putnam affiliate, offers a broad range of investment solutions using sophisticated quantitative techniques.

On June 1, 2019, Great-West Life & Annuity, a U.S. subsidiary of Lifeco, completed the sale, via indemnity reinsurance, of substantially all of its individual life insurance and annuity business to Protective Life Insurance Company (Protective Life) which now assumes the economics and risks associated with the reinsured business. The transaction resulted in an after-tax transaction value to Lifeco of approximately $1.6 billion (US$1.2 billion), excluding one-time expenses. The transaction value included a ceding commission of $1,080 million (US$806 million) and a capital release of approximately $530 million (US$400 million). The business transferred included bank-owned and corporate-owned life insurance, single-premium life insurance, individual annuities as well as closed-block life insurance and annuities. The transaction was structured as a reinsurance agreement, consequently, Lifeco will hold both the liability and offsetting reinsurance asset on its balance sheet.

In the second quarter of 2019, Lifeco recognized a loss related to this transaction of $199 million (US$148 million), which included transaction costs of $63 million (US$47 million) and $36 million (US$27 million) due to updated expense assumptions primarily related to stranded overhead. The liabilities transferred and ceding commission received at the closing of this transaction are subject to future adjustments. In October 2019, Protective Life provided Lifeco with its listing of proposed adjustments with respect to the liabilities transferred. In December 2019, Lifeco formally objected to these proposed adjustments. Lifeco continues to resolve these differences according to the Master Transaction Agreement. Based on the information presently known by Lifeco, it is difficult to predict the outcome of this matter with certainty, but this matter is not expected to materially impact the consolidated financial position of Lifeco. Great-West Life & Annuity has retained a block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.

The Reinsured Insurance & Annuity Business unit reflects substantially all of the individual life insurance and annuity business sold, through indemnity reinsurance, to Protective Life effective June 1, 2019. These products include life insurance, annuity and executive benefits, which are no longer offered by the U.S. segment.

The European segment is comprised of two distinct business units, Insurance & Annuities and Reinsurance, which offer protection and wealth management products, including payout annuity products and reinsurance products.

At December 31, 2019, Power Financial and IGM held interests of 66.9% and 4.0%, respectively, in Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits voting rights in life insurance companies to 65%.

See Part C of this MD&A for additional information on Lifeco.

IGM FINANCIAL

IGM Financial Inc., TSX: IGM; market capitalization of $8.9 billion at December 31, 2019, is a leading wealth and asset management company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly, primarily within the advice segment of the financial services market. Its activities are carried out through its subsidiaries IG Wealth Management, Mackenzie Investments and Investment Planning Counsel.

IG Wealth Management offers an exclusive family of mutual funds and other investment vehicles, and a wide range of insurance, securities, mortgage products and other financial services. IG Wealth Management offers IG Living Plan™, a holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan™ provides a single, integrated view of all aspects of a client's finances, including retirement and estate planning, investments, and tax strategies, creating a truly synchronized and comprehensive plan. IG Wealth Management provides its services through its exclusive network of consultants across Canada. It strives to distinguish itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships.

Mackenzie Investments is an investment management firm providing investment advisory and related services through multiple distribution channels: Retail, Strategic Alliances and Institutional. Mackenzie distributes its products and services primarily through a diversified distribution network of third-party financial advisors. Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

IGM holds a 13.9% interest in China AMC, one of the first fund management companies in China, which has developed and maintained its position among the market leaders in China's asset management industry. China AMC's assets under management, excluding subsidiary assets under management, were RMB¥1,032 billion (C$192 billion) at December 31, 2019. Power Financial's parent company, Power Corporation, directly holds a 13.9% equity interest in China AMC. Power Corporation and IGM hold a combined 27.8% interest in China AMC. Power Corporation and IGM have significant influence and account for their interests as an associate using the equity method.

Investment Planning Counsel is an independent distributor of financial products, services and advice in Canada.

IGM previously announced a five-year transformation to modernize its digital platforms and technology infrastructure to enable it to enhance operations, achieve efficiencies and further improve the service experience for its clients. As part of this transformation effort, IGM announced two initiatives during 2019:

- IGM has selected CIBC Mellon to assume most of its fund services functions. This will add fund administration servicing solutions to the custody and related services that CIBC Mellon already performs for IGM.
- IGM has chosen Google Cloud to manage its data platform. IGM is among the first major Canadian financial services companies to move SAP applications and data to the Google Cloud Platform. The migration of the firm's data to a cloud-based environment is expected to enhance operational efficiencies through greater productivity and business agility, and enhanced service levels.

At December 31, 2019, Power Financial and Great-West Life, a subsidiary of Lifeco, held interests of 62.1% and 3.9%, respectively, in IGM's common shares.

See Part D of this MD&A for additional information on IGM.

PARGESA AND GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group each hold a 50% interest in Parjointco. At December 31, 2019, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa, SIX: PARG; market capitalization of SF6.8 billion, is a holding company, which, at December 31, 2019, held a 50% interest in GBL, representing 51.7% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange.

GBL, EBR: GBLB; market capitalization of €15.2 billion, is one of the largest listed holding companies in Europe. As a holding company focused on long-term value creation, GBL relies on a stable and supportive family shareholder base. Its portfolio is comprised of global industrial and services companies, leaders in their markets, in which GBL plays its role of professional shareholder.

At December 31, 2019, GBL's portfolio was mainly comprised of investments in the following:

PUBLICLY LISTED

- Imerys (EPA: NK) – mineral-based specialty solutions for industry
- adidas (XETR: ADS) – design and distribution of sportswear
- Pernod Ricard (EPA: RI) – wines and spirits
- SGS (SIX: SGSN) – testing, inspection and certification
- LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete
- Umicore (EBR: UMI) – materials technology and recycling of precious metals
- Total (EPA: FP) – oil, gas and chemical industries
- GEA (XETR: G1A) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors
- Ontex (EBR: ONTEX) – disposable hygiene products

PRIVATELY HELD

- Webhelp – provider of customer experience and business process outsourcing
- Parques – operation of regional leisure parks

In addition, through its subsidiary Sienna Capital, GBL is developing a portfolio of private equity, debt and thematic funds.

During the second quarter of 2019, GBL sold its 0.6% interest in Total through forward sales contracts maturing in January 2020. GBL expects to realize a gain of €411 million in the first quarter of 2020.

On August 2, 2019, GBL announced the signing of an agreement to acquire Webhelp, through an investment vehicle controlled by GBL. Webhelp is one of the world's leading providers of customer experience and business process outsourcing. On November 19, 2019, GBL completed the acquisition of Webhelp. GBL invested €0.9 billion for an ownership of 64.7% of the capital of the investment vehicle, on the basis of a total enterprise value of €2.4 billion for Webhelp.

On March 11, 2020 Parjointco and Pargesa announced an agreement for a proposed transaction that would simplify the group structure. As per the agreement, a public exchange offer will be initiated by Parjointco for all Pargesa shares not already owned by Parjointco under which Pargesa shareholders will be entitled to receive 0.93 shares of GBL for each Pargesa bearer share they hold. Following the proposed transaction, it is anticipated that Pargesa will be delisted from the SIX and Parjointco is expected to retain de facto control and maintain approximately the same economic equity interest in GBL of 28%. The proposed transaction will be subject to Parjointco holding or having received shareholder acceptances with respect to at least 90% of Pargesa's total voting rights and is conditional upon GBL shareholders approving the implementation of double-voting rights at GBL's Extraordinary Shareholders Meeting to be held on April 28, 2020.

At December 31, 2019, Pargesa's net asset value was SF10,946 million, compared with SF8,973 million at December 31, 2018. GBL's net asset value at December 31, 2019 was €20,349 million, compared with €16,193 million at December 31, 2018.

See Part E of this MD&A for additional information on Pargesa.

PORTAG3, WEALTHSIMPLE AND KOHO

Power Financial, together with IGM and Lifeco (the group), are anchor investors in funds managed by an affiliate, Portag3 Ventures, which operates investment funds dedicated to backing innovative financial services companies that have the potential for change and global impact. To date, Portag3 Ventures has invested in more than 45 fintech companies and investment funds. Portag3 Ventures is managed by Sagard Holdings, a subsidiary of Power Corporation.

Portag3 Ventures' first fintech fund (Portag3) held investments of $64 million at December 31, 2019 ($56 million at December 31, 2018), excluding the investments in consolidated subsidiaries Wealthsimple and Koho discussed below.

Portag3 II, Portag3 Ventures' second fintech fund, is focused on early stage investments in specific verticals within the global financial technology sector. During the fourth quarter of 2019, additional closings increased the total capital commitments by $74 million to $427 million ($211 million at December 31, 2018). Power Financial, Lifeco and IGM have each committed $33 million for a total of $99 million. At December 31, 2019, the fair value and cost of Portag3 II's investment portfolio, excluding the investment in the consolidated subsidiary Koho, was $143 million ($62 million at December 31, 2018) and $110 million ($55 million at December 31, 2018), respectively.

At December 31, 2019, Portag3, Power Financial and IGM held, through a limited partnership controlled by Power Financial, an undiluted equity interest in Wealthsimple of 84.9%, representing a voting interest of 85.3% and a fully diluted equity interest of 71.3%. Wealthsimple is one of Canada's leading financial technology companies, and operates one of the country's largest and fastest-growing digital investing service. In May 2019, Wealthsimple announced the closing of a $100 million Series B investment round, led by a third party, Allianz X, the digital investment unit of Germany-based insurer and asset manager Allianz Group.

Wealthsimple continues to expand its presence in the marketplace and diversify its offering to a suite of investment and save products, which include Wealthsimple Invest, Wealthsimple Save, Wealthsimple Trade, Wealthsimple for Advisors (W4A) and Wealthsimple for Work (W4W). At December 31, 2019, Wealthsimple has over 250,000 clients across the Canadian, United States and United Kingdom markets with assets under administration of over $6.3 billion. On September 24, 2019, Wealthsimple announced that it had acquired SimpleTax, a Canadian web-based tax preparation service. On January 23, 2020, Wealthsimple announced that Purpose Advisor Solutions acquired Wealthsimple for Advisors.

During the fourth quarter of 2019, Power Financial and IGM invested $4 million and $5 million, respectively, in Wealthsimple. In 2019, Power Financial and IGM invested a total of $107 million in Wealthsimple, which includes the conversion of $20 million of previously issued promissory notes. At December 31, 2019, the cost of the group's investment was $315 million.

At December 31, 2019, Portag3 II and Portag3, Power Financial, Lifeco and IGM, through a limited partnership controlled by Power Financial, held a 54.4% equity interest in Koho. Koho is a Canada-based digital platform offering a suite of financial services to provide consumers an experience that is an alternative to a traditional bank. During the fourth quarter of 2019, Koho announced that it closed an extension of its latest Series B round for $25 million of new capital led by Drive Capital. At December 31, 2019, the cost of the group's investment in Koho was $32 million.

Basis of Presentation

IFRS FINANCIAL MEASURES AND PRESENTATION

The 2019 Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS and are presented in Canadian dollars.

Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its subsidiaries. The consolidated financial statements present the financial results of Power Financial (parent) and Lifeco, IGM, Wealthsimple, Koho and the Portag3 funds (Power Financial's controlled operating subsidiaries) after the elimination of intercompany balances and transactions.

Power Financial's investment in Pargesa is held through Parjointco. Parjointco is a holding company jointly controlled by Power Financial and the Frère Group. Power Financial's investment in Parjointco is accounted for using the equity method, in which the investment is initially recognized at cost and adjusted thereafter for:

- Power Financial's share of:
  - Net earnings or loss in Pargesa;
  - Other comprehensive income or loss in Pargesa; and
  - Pargesa's other changes in equity.
- Dividends received from Parjointco.

The following table summarizes the accounting presentation for the Corporation's holdings:

Control	Accounting Method	Earnings and Other Comprehensive Income	Impairment Testing	Impairment Reversal
Controlling interest in the entity	Consolidation	Consolidated with non-controlling interests	Goodwill and indefinite life intangible assets are tested at least annually for impairment	Impairment of goodwill cannot be reversed Impairment of intangible assets is reversed if there is evidence of recovery of value
Significant influence or joint control	Equity method	Corporation's share of earnings and other comprehensive income	Entire investment is tested for impairment	Reversed if there is evidence the investment has recovered its value
Investment	Available for sale (AFS)	Earnings consist of dividends received and gains or losses on disposals The investments are marked to market through other comprehensive income Earnings are reduced by impairment charges, if any	Impairment testing is done at the individual investment level A significant or prolonged decline in the value of the investment results in an impairment charge A share price decrease subsequent to an impairment charge leads to a further impairment	A subsequent recovery of value does not result in a reversal

At December 31, 2019, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Lifeco [1]	66.9	Controlling interest	Consolidation
IGM [2]	62.1	Controlling interest	Consolidation
Pargesa [3]	27.8	Joint control	Equity method
Portag3 [4]	63.0	Controlling interest	Consolidation
Portag3 II [5]	7.7	Controlling interest	Consolidation
Wealthsimple [6]	21.2	Controlling interest	Consolidation
Koho [7]	6.5	Controlling interest	Consolidation

[1] IGM also holds a 4.0% interest in Lifeco.

[2] Great-West Life also holds a 3.9% interest in IGM.

[3] Held through Parjointco, a jointly controlled corporation (50%).

[4] Lifeco and IGM also hold equal interests of 18.5% in Portag3.

[5] Lifeco and IGM also hold equal interests of 7.7% in Portag3 II.

[6] Portag3 and IGM also hold interests of 16.8% and 46.9%, respectively, in Wealthsimple.

[7] Lifeco and IGM also hold equal interests of 6.5% and Portag3 and Portag3 II hold interests of 2.7% and 32.1%, respectively, in Koho.

At December 31, 2019, Pargesa's main holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
GBL	50.0	Controlling interest	Consolidation
Publicly listed			
Imerys	54.0	Controlling interest	Consolidation
adidas	6.8	Investment	Available for sale
Pernod Ricard	7.5	Investment	Available for sale
SGS	16.7	Investment	Available for sale
LafargeHolcim	7.6	Investment	Available for sale
Umicore	18.0	Investment	Available for sale
Total	0.6	Investment	Available for sale
GEA	8.5	Investment	Available for sale
Ontex	20.0	Investment	Available for sale
Other investments	< 5.0	Investment	Available for sale
Privately held			
Sienna Capital [1]	100.0	Controlling interest	Consolidation
Webhelp	64.7	Controlling interest	Consolidation
Parques	23.0	Significant influence	Equity method

[1] Sienna Capital holds a portfolio of investments in alternative investment funds.

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2019 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies (Note 2);
- Investments (Note 6);
- Investments in jointly controlled corporations and associates (Note 8);
- Goodwill and intangible assets (Note 11); and
- Non-controlling interests (Note 20).

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

This MD&A presents and discusses financial measures which are not in accordance with IFRS. Management uses these financial measures in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. The non-IFRS financial measures used in this MD&A are defined as follows:

Non-IFRS financial measure	Definition	Purpose
Non-consolidated basis of presentation	Power Financial's interests in Lifeco, IGM, Portag3, Portag3 II, Wealthsimple and Koho are accounted for using the equity method.	Used by the Corporation to present and analyze its results, financial position and cash flows. Presents the holding company's (parent) results separately from the results of its consolidated operating companies. As a holding company, management reviews and assesses the performance of each operating company's contribution to net earnings and adjusted net earnings. This presentation is useful to the reader to assess the impact of the contribution to earnings for each subsidiary.
Adjusted net earnings	Net earnings excluding the impact of Other items.	Assists in the comparison of the current period's results to those of previous periods as items that are not considered to be a part of ongoing operations are excluded.
Other items	After-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Includes the Corporation's share of items presented as other items by a subsidiary or a jointly controlled corporation.	Identifies items that are not considered part of ongoing operations. The exclusion of these items assists management and the reader in assessing current results as these items are not reflective of ongoing operations.
Adjusted net earnings per share	Earnings per share calculated using adjusted net earnings. Adjusted net earnings divided by the weighted average number of common shares outstanding.	Assists in comparing adjusted net earnings on a per share basis.
Net asset value	Net asset value is the fair value of Power Financial's non-consolidated assets less its net debt and preferred shares. The investments held in public entities (Lifeco, IGM and Pargesa) are measured at their market value and investments in private entities are measured at management's estimate of fair value.	Presents the fair value of the net assets of the holding company and is used to assist in assessing value. This measure may be used by investors and analysts in determining or comparing the fair value of investments held by the company or its overall fair value.
Net asset value per share	Net asset value calculated on a per share basis. Net asset value divided by the number of common shares outstanding.	Assists the reader in comparing net asset value on a per share basis.

These non-IFRS financial measures do not have a standard meaning and may not be comparable to similar measures used by other entities. Reconciliations of the net asset value and the non-IFRS basis of presentation with the presentation in accordance with IFRS are included throughout this MD&A.

RECONCILIATION OF IFRS AND NON-IFRS FINANCIAL MEASURES

The following tables present a reconciliation of net earnings reported in accordance with IFRS to non-IFRS financial measures: adjusted net earnings, other items and related per share amounts. Adjusted net earnings and adjusted net earnings per share are presented in the section "Non-Consolidated Statements of Earnings":

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Net earnings – IFRS financial measure [1]	1,964	2,245	401	584	478
Share of Other items [2], net of tax					
Lifeco	285	39	151	–	–
IGM	11	16	6	–	–
Pargesa	37	(18)	24	6	(18)
Corporate operations	9	–	9	–	–
	342	37	190	6	(18)
Adjusted net earnings – Non-IFRS financial measure [1]	2,306	2,282	591	590	460

[1] Attributable to common shareholders of Power Financial.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM, Pargesa and corporate operations.

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Net earnings per share – IFRS financial measure [1]	2.89	3.15	0.60	0.88	0.67
Share of Other items [2], net of tax					
Lifeco	0.42	0.05	0.23	–	–
IGM	0.02	0.02	0.01	–	–
Pargesa	0.06	(0.02)	0.04	0.01	(0.02)
Corporate operations	0.01	–	0.01	–	–
	0.51	0.05	0.29	0.01	(0.02)
Adjusted net earnings per share – Non-IFRS financial measure [1]	3.40	3.20	0.89	0.89	0.65

[1] Attributable to common shareholders of Power Financial.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM, Pargesa and corporate operations.

Results of Power Financial

This section presents:

- the "Consolidated Statements of Earnings in accordance with IFRS"; and
- the "Non-Consolidated Statements of Earnings", which present the contributions of operating subsidiaries and Pargesa to the net earnings and adjusted net earnings of Power Financial.

Refer to the section "Non-IFRS Financial Measures and Presentation" for a description of the non-consolidated basis of presentation and a reconciliation of IFRS and non-IFRS financial measures.

DEFERRAL OF IFRS 9, *FINANCIAL INSTRUMENTS* (IFRS 9)

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts* and will be applied retrospectively. In June 2019, the IASB issued an Exposure draft, which provided targeted amendments to IFRS 17 including a deferral of one year of the effective date of the standard to January 1, 2022. In addition, the IASB extended to January 1, 2022 the exemption for insurers to apply the financial instruments standard, IFRS 9, *Financial Instruments*, so that both IFRS 9 and IFRS 17 will have the same effective date.

IGM, a subsidiary and Pargesa, held through Parjointco, a jointly controlled corporation, do not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted but not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation decided to continue applying accounting policies in accordance with IAS 39, *Financial Instruments: Recognition and Measurement,* to Pargesa's results. On consolidation, the Corporation has adjusted the results of both IGM and Pargesa to be in accordance with IAS 39. Refer to the specific discussion included in the IGM and Pargesa sections "Contribution to net earnings and adjusted net earnings".

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

Power Financial's consolidated statements of earnings for the twelve months and three months ended December 31, 2019 are presented below. The Corporation's operating segments are Lifeco, IGM and Pargesa. This table reflects the contributions from Lifeco, IGM and Pargesa to the net earnings attributable to Power Financial's common shareholders.

Consolidated net earnings – Twelve months ended

	Lifeco	IGM [1]	Pargesa [2]	Corporate [3]	Power Financial Consolidated net earnings	
					December 31, 2019	December 31, 2018
Revenues						
Total net premiums [4]	24,510	–	–	(21)	24,489	35,440
Net investment income	13,107	169	–	(29)	13,247	2,822
Fee income [4]	7,081	3,051	–	(66)	10,066	8,763
Total revenues	44,698	3,220	–	(116)	47,802	47,025
Expenses						
Total paid or credited to policyholders	33,091	–	–	–	33,091	32,068
Commissions	2,429	1,101	–	(50)	3,480	3,512
Operating and administrative expenses	6,013	1,055	–	169	7,237	6,997
Financing charges	285	108	–	42	435	360
Total expenses	41,818	2,264	–	161	44,243	42,937
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,880	956	–	(277)	3,559	4,088
Share of earnings of investments in jointly controlled corporations and associates	–	13	193	5	211	94
Earnings before income taxes	2,880	969	193	(272)	3,770	4,182
Income taxes	373	220	–	8	601	602
Net earnings	2,507	749	193	(280)	3,169	3,580
Attributable to						
Non-controlling interests	928	295	–	(157)	1,066	1,197
Perpetual preferred shareholders	–	–	–	139	139	138
Common shareholders of Power Financial	1,579	454	193	(262)	1,964	2,245
	2,507	749	193	(280)	3,169	3,580

[1] Results reported by IGM are in accordance with IFRS 9. As the Corporation has not adopted IFRS 9, adjustments in accordance with IAS 39 have been recognized on consolidation and included in "Corporate".

[2] Results reported by Pargesa are in accordance with IFRS 9. The Corporation's share of earnings of Pargesa includes adjustments in accordance with IAS 39, including the Corporation's share of gains realized on the sale of investments classified as fair value through other comprehensive income (FVOCI) by Pargesa and an impairment charge.

[3] "Corporate" is comprised of the results of Portag3, Portag3 II, Wealthsimple and Koho, the Corporation's investment activities, corporate operations and consolidation entries.

[4] As a result of Lifeco's sale, via indemnity insurance, of its U.S. individual life insurance and annuity business to Protective Life effective June 1, 2019, total net premiums include $13.9 billion of premiums ceded to Protective Life and fee income includes $1.1 billion of ceding commission received from Protective Life.

Consolidated net earnings – Three months ended

	Lifeco	IGM [1]	Pargesa [2]	Corporate [3]	Power Financial Consolidated net earnings		
					December 31, 2019	September 30, 2019	December 31, 2018
Revenues							
Total net premiums	9,478	–	–	(6)	9,472	9,319	9,040
Net investment income	(304)	43	–	(6)	(267)	3,590	1,254
Fee income	1,515	779	–	(14)	2,280	2,249	2,144
Total revenues	10,689	822	–	(26)	11,485	15,158	12,438
Expenses							
Total paid or credited to policyholders	7,769	–	–	–	7,769	11,440	8,686
Commissions	650	278	–	(10)	918	830	932
Operating and administrative expenses	1,538	267	–	71	1,876	1,730	1,818
Financing charges	71	27	–	12	110	107	99
Total expenses	10,028	572	–	73	10,673	14,107	11,535
Earnings before investments in jointly controlled corporations and associates, and income taxes	661	250	–	(99)	812	1,051	903
Share of earnings of investments in jointly controlled corporations and associates	–	2	32	1	35	33	(28)
Earnings before income taxes	661	252	32	(98)	847	1,084	875
Income taxes	143	60	–	–	203	109	95
Net earnings	518	192	32	(98)	644	975	780
Attributable to							
Non-controlling interests	177	82	–	(51)	208	356	268
Perpetual preferred shareholders	–	–	–	35	35	35	34
Common shareholders of Power Financial	341	110	32	(82)	401	584	478
	518	192	32	(98)	644	975	780

[1] Results reported by IGM are in accordance with IFRS 9. As the Corporation has not adopted IFRS 9, adjustments in accordance with IAS 39 have been recognized on consolidation and included in "Corporate".

[2] Results reported by Pargesa are in accordance with IFRS 9. The Corporation's share of earnings of Pargesa includes adjustments in accordance with IAS 39, including the Corporation's share of a gain realized on the sale of an investment classified as FVOCI by Pargesa.

[3] "Corporate" is comprised of the results of Portag3, Portag3 II, Wealthsimple and Koho, the Corporation's investment activities, corporate operations and consolidation entries.

As a holding company, the Corporation evaluates the performance of each segment based on its contribution to net earnings and adjusted net earnings. A discussion of the results of Lifeco, IGM and Pargesa is provided in the "Contribution to net earnings and adjusted net earnings" section below.

NON-CONSOLIDATED STATEMENTS OF EARNINGS

In this section, the contributions from Lifeco and IGM to the net earnings and adjusted net earnings attributable to Power Financial's common shareholders are accounted for using the equity method.

Contribution to adjusted and net earnings

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings [1]					
Lifeco [2]	1,864	2,040	492	488	480
IGM [2]	465	462	116	124	105
Pargesa [2]	230	39	56	35	(53)
	2,559	2,541	664	647	532
Corporate operations	(114)	(121)	(38)	(22)	(38)
Dividends on perpetual preferred shares	(139)	(138)	(35)	(35)	(34)
Adjusted net earnings [3]	2,306	2,282	591	590	460
Other items [4]					
Lifeco	(285)	(39)	(151)	–	–
IGM	(11)	(16)	(6)	–	–
Pargesa	(37)	18	(24)	(6)	18
Corporate operations	(9)	–	(9)	–	–
	(342)	(37)	(190)	(6)	18
Net earnings [3]	1,964	2,245	401	584	478

[1] For a reconciliation of Lifeco, IGM and Pargesa's non-IFRS adjusted net earnings to their net earnings, refer to the "Contribution to net earnings and adjusted net earnings" section below.

[2] The contributions from Lifeco and IGM include an allocation of the results of Wealthsimple, Koho, Portag3 and Portag3 II, based on their respective interest. Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39.

[3] Attributable to common shareholders.

[4] See "Other items" section below.

Contribution to adjusted and net earnings per share

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings per share – basic [1]					
Lifeco [2]	2.75	2.86	0.74	0.74	0.67
IGM [2]	0.69	0.65	0.18	0.19	0.15
Pargesa [2]	0.34	0.05	0.08	0.05	(0.07)
	3.78	3.56	1.00	0.98	0.75
Corporate operations	(0.17)	(0.17)	(0.06)	(0.04)	(0.05)
Dividends on perpetual preferred shares	(0.21)	(0.19)	(0.05)	(0.05)	(0.05)
Adjusted net earnings per share [3]	3.40	3.20	0.89	0.89	0.65
Other items [4]					
Lifeco	(0.42)	(0.05)	(0.23)	–	–
IGM	(0.02)	(0.02)	(0.01)	–	–
Pargesa	(0.06)	0.02	(0.04)	(0.01)	0.02
Corporate operations	(0.01)	–	(0.01)	–	–
	(0.51)	(0.05)	(0.29)	(0.01)	0.02
Net earnings per share [3]	2.89	3.15	0.60	0.88	0.67

[1] For a reconciliation of Lifeco and IGM's non-IFRS adjusted net earnings per share to their net earnings per share, refer to the "Contribution to net earnings and adjusted net earnings" section below.

[2] The contributions from Lifeco and IGM include an allocation of the results of Wealthsimple, Koho, Portag3 and Portag3 II, based on their respective interest. Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39.

[3] Attributable to common shareholders.

[4] See "Other items" section below.

2019 vs. 2018	Q4 2019 vs. Q4 2018 and Q3 2019
Net earnings	
$1,964 million or $2.89 per share, compared with $2,245 million or $3.15 per share in the corresponding period in 2018, a decrease of 8.3% on a per share basis.	$401 million or $0.60 per share, compared with $478 million or $0.67 per share in the corresponding period in 2018, a decrease of 10.4% on a per share basis, and $584 million or $0.88 per share in the third quarter of 2019.
Adjusted net earnings	
$2,306 million or $3.40 per share, compared with $2,282 million or $3.20 per share in the corresponding period in 2018, an increase of 6.3% on a per share basis.	$591 million or $0.89 per share, compared with $460 million or $0.65 per share in the corresponding period in 2018, an increase of 36.9% on a per share basis, and $590 million or $0.89 per share in the third quarter of 2019.
Contribution to net earnings and adjusted net earnings from Lifeco, IGM and Pargesa	
Contribution to net earnings of $2,226 million, compared with $2,504 million in the corresponding period in 2018, a decrease of 11.1%.	Contribution to net earnings of $483 million, compared with $550 million in the corresponding period in 2018, a decrease of 12.2%, and $641 million in the third quarter of 2019.
Contribution to adjusted net earnings of $2,559 million, compared with $2,541 million in the corresponding period in 2018, an increase of 0.7%.	Contribution to adjusted net earnings of $664 million, compared with $532 million in the corresponding period in 2018, an increase of 24.8%, and $647 million in the third quarter of 2019.

A discussion of the results of the Corporation is provided in the sections "Contribution to net earnings and adjusted net earnings", "Corporate operations", and "Other items" below.

CONTRIBUTION TO NET EARNINGS AND ADJUSTED NET EARNINGS

LIFECO

Contribution to Power Financial

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Contribution to Power Financial's [1]:					
Adjusted net earnings					
As reported by Lifeco	1,869	2,044	495	488	481
Consolidation entries	(5)	(4)	(3)	–	(1)
	1,864	2,040	492	488	480
Other items	(285)	(39)	(151)	–	–
Net earnings	1,579	2,001	341	488	480

[1] The average direct ownership of Power Financial in Lifeco was 67.1% for the year ended December 31, 2019 (67.7% in the corresponding period in 2018).

Adjusted and net earnings per share as reported by Lifeco

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings per share [1]	2.944	3.052	0.797	0.786	0.719
Other items [2]	(0.450)	(0.056)	(0.245)	–	–
Net earnings per share [1]	2.494	2.996	0.552	0.786	0.719

[1] Attributable to Lifeco common shareholders.

[2] See "Other items" section below.

Adjusted and net earnings by segment as reported by Lifeco

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Canada					
Individual Customer	431	685	87	85	171
Group Customer	632	630	114	206	144
Canada Corporate	(12)	(40)	(13)	9	(5)
	1,051	1,275	188	300	310
United States					
Financial Services [1]	278	240	100	63	48
Asset Management	33	(61)	18	13	(29)
U.S. Corporate [2, 3]	(1)	52	(4)	1	–
Reinsured Insurance & Annuity Business [1, 3]	63	157	–	–	36
	373	388	114	77	55
Europe					
Insurance and Annuities	1,050	1,036	334	306	271
Reinsurance	353	377	124	55	89
Europe Corporate [3]	(21)	(46)	(14)	(4)	(11)
	1,382	1,367	444	357	349
Lifeco Corporate	(21)	(13)	(6)	(4)	(4)
Adjusted net earnings [4]	2,785	3,017	740	730	710
Other items [3]	(426)	(56)	(227)	–	–
Net earnings [4]	2,359	2,961	513	730	710

[1] The Reinsured Insurance & Annuity Business unit reflects business transferred to Protective Life under an indemnity reinsurance agreement effective on June 1, 2019. Comparative figures have been adjusted to reflect the current presentation.

[2] U.S. Corporate net earnings for the second quarter of 2018 included a net positive impact of $60 million arising from refinancing in the U.S. segment.

[3] Other items represent amounts which have been excluded from the Reinsured Insurance & Annuity Business unit of the U.S. segment and from the corporate business units of the U.S. and Europe segments. Refer to the "Other items" section.

[4] Attributable to Lifeco common shareholders.

2019 vs. 2018	Q4 2019 vs. Q4 2018 and Q3 2019
Net earnings	
$2,359 million or $2.494 per share, compared with $2,961 million or $2.996 per share in the corresponding period in 2018, a decrease of 16.8% on a per share basis. In the second quarter of 2019, Lifeco sold its U.S. individual life insurance and annuity business. Lifeco's net earnings for 2019 include a contribution of $63 million, compared with $157 million in the corresponding period in 2018.	$513 million or $0.552 per share, compared with $710 million or $0.719 per share in the corresponding period in 2018, a decrease of 23.2% on a per share basis, and $730 million or $0.786 per share in the third quarter of 2019. As a result of the sale of U.S. individual life insurance and annuity business during the second quarter of 2019, Lifeco's net earnings for the fourth quarter of 2019 do not include any earnings from this business, which contributed $36 million to net earnings in the fourth quarter of 2018.
Adjusted net earnings	
$2,785 million or $2.944 per share, compared with $3,017 million or $3.052 per share in the corresponding period in 2018, a decrease of 3.5% on a per share basis.	$740 million or $0.797 per share, compared with $710 million or $0.719 per share in the corresponding period in 2018, an increase of 10.8% on a per share basis, and $730 million or $0.786 per share in the third quarter of 2019.

CANADA

Net earnings for the twelve-month period ended December 31, 2019 decreased by $224 million to $1,051 million, compared with the corresponding period in 2018.

Net earnings for the three-month period ended December 31, 2019 decreased by $122 million to $188 million, compared with the corresponding quarter in 2018.

There were no Other items in the twelve-month period ended December 31, 2019 and in the corresponding period in 2018.

Individual Customer

Net earnings for the twelve-month period ended December 31, 2019 decreased by $254 million to $431 million, compared with the same period last year. The decrease was primarily due to:

- Unfavourable contributions from insurance contract liability basis changes; and
- Lower net fee income and less favourable policyholder behaviour experience;
- Partially offset by higher contributions from investment experience.

Net earnings for the three-month period ended December 31, 2019 decreased by $84 million to $87 million, compared with the same quarter last year. The decrease was primarily due to:

- Unfavourable contributions from insurance contract liability basis changes and less favourable impact of new business;
- Partially offset by higher contributions from investment experience.

Insurance contract liability basis changes in the fourth quarter of 2019 include the strengthening of actuarial reserves driven by impact of updates to policyholder behaviour assumptions, updates to morbidity assumptions and refinements to certain investment-related assumptions.

Group Customer

Net earnings for the twelve-month period ended December 31, 2019 increased by $2 million to $632 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from investment experience;
- Partially offset by lower contributions from insurance contract liability basis changes.

Net earnings for the three-month period ended December 31, 2019 decreased by $30 million to $114 million, compared with the same quarter last year. The decrease was primarily due to:

- Lower contributions from insurance contract liability basis changes and less favourable morbidity experience;
- Partially offset by higher contributions from investment experience.

Insurance contract liability basis changes in the fourth quarter of 2019 include the impact of updates to mortality assumptions and refinements to certain investment-related assumptions.

UNITED STATES

Net earnings for the twelve-month period ended December 31, 2019 were a net loss of $61 million, compared with net earnings of $388 million in the corresponding period in 2018. Adjusted net earnings were $373 million in the twelve-month period ended December 31, 2019, and excluded Other items of $434 million as discussed below. There were no Other items in the corresponding period in 2018.

Net earnings for the three-month period ended December 31, 2019 were a net loss of $121 million, compared with net earnings of $55 million in the corresponding quarter in 2018. Adjusted net earnings were $114 million in the three-month period ended December 31, 2019, and excluded Other items of $235 million as discussed below. There were no Other items in the corresponding period in 2018.

Financial Services

For the twelve-month period ended December 31, 2019, net earnings were US$211 million (C$278 million), compared with US$184 million (C$240 million) in the corresponding period in 2018. The increase of US$27 million was primarily due to:

- The impact of a valuation adjustment on an employee pension plan; and
- Higher contributions from investment experience and net business growth;
- Partially offset by lower contributions from insurance contract liability basis changes and higher operating expenses.

For the three-month period ended December 31, 2019, net earnings were US$76 million (C$100 million), compared with US$36 million (C$48 million) in the corresponding period in 2018. The increase of US$40 million was primarily due to:

- The impact of a valuation adjustment on an employee pension plan; and
- Higher contributions from investment experience and net business growth;
- Partially offset by higher operating expenses.

Asset Management

For the twelve-month period ended December 31, 2019, net earnings were US$24 million (C$33 million), compared with a net loss of US$47 million (C$61 million) in the corresponding period in 2018. The increase in net earnings of US$71 million was primarily due to:

- Higher net investment income on seed capital; and
- Lower operating expenses, which included the impact of expense reduction initiatives;
- Partially offset by lower net fee income.

Net earnings also include financing and other expenses after tax of US$35 million (C$45 million). Financing and other expenses decreased by US$4 million from the corresponding period in 2018 primarily due to lower net financing costs as a result of debt refinancing during the prior year.

For the three-month period ended December 31, 2019, net earnings were US$13 million (C$18 million), compared with a net loss of US$22 million (C$29 million) in the same quarter last year. The increase in net earnings of US$35 million was primarily due to higher net investment income on seed capital and higher net fee income. Net earnings in the fourth quarter of 2019 also includes financing and other expenses after tax of US$8 million (C$10 million), comparable to the corresponding quarter in 2018.

Reinsured Insurance & Annuity Business

For the twelve-month period ended December 31, 2019, the net loss was US$101 million (C$136 million) compared with net earnings of US$122 million (C$157 million) for the same period last year. Excluding other items which comprise a net charge of US$148 million (C$199 million) relating to the sale, via indemnity insurance, on June 1, 2019 to Protective Life (refer to the overview section "Lifeco"), adjusted net earnings were US$47 million (C$63 million), a decrease of US$75 million compared with the same period last year, reflecting the timing of the reinsurance transaction with Protective Life during the second quarter.

For the three-month period ended December 31, 2019, there was no earnings impact, compared with net earnings of US$27 million (C$36 million) for the same quarter last year. Following the sale, via indemnity reinsurance, to Protective Life on June 1, 2019, there were no additional sales, fee and other income and net earnings related to this business unit.

EUROPE

Net earnings for the twelve-month period ended December 31, 2019 increased by $79 million to $1,390 million, compared with the corresponding period in 2018. Adjusted net earnings in the twelve-month period ended December 31, 2019 were $1,382 million, and excluded Other items, discussed below, of a positive earnings impact of $8 million. Adjusted net earnings in the twelve-month period ended December 31, 2018 were $1,367 million, and excluded Other items, discussed below, of $56 million.

Net earnings for the three-month period ended December 31, 2019 increased by $103 million to $452 million, compared with the corresponding quarter in 2018. Adjusted net earnings in the three-month period ended December 31, 2019 were $444 million, and excluded Other items, discussed below, of a positive earnings impact of $8 million. There were no Other items in the three-month period ended December 31, 2018.

Insurance and Annuities

Net earnings for the twelve-month period ended December 31, 2019 increased by $14 million to $1,050 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from investment experience, which included the impact of bond and mortgage upgrades in 2019, and higher realized gains on surplus assets; and
- Favourable impact of new business, favourable mortality experience in the U.K. and the impact of changes to certain tax estimates, including the resolution of an outstanding issue with a foreign tax authority;
- Partially offset by the impact of impairment charges on mortgage loans and reductions in expected property cash flows primarily associated with a U.K. retail tenant entering a prepackaged administration, lower contributions from insurance contract liability basis changes and adverse morbidity experience in Ireland.

Net earnings for the three-month period ended December 31, 2019 increased by $63 million to $334 million, compared with the same quarter last year. The increase was primarily due to:

- The resolution of an outstanding issue with a foreign tax authority; and
- Higher contributions from investment experience;
- Partially offset by adverse morbidity experience in Ireland.

To address the evidence of an adverse trend in claims in Ireland, pricing action has been taken during 2019, which will take effect in 2020, and Lifeco will continue to monitor its progress.

Reinsurance

Net earnings for the twelve-month period ended December 31, 2019 decreased by $24 million to $353 million, compared with the same period last year. The decrease was primarily due to:

- Less favourable claims experience in the life and annuity business; and
- Lower contributions from insurance contract liability basis changes;
- Partially offset by higher business volumes and favourable initial impacts of new business.

Net earnings for the three-month period ended December 31, 2019 increased by $35 million to $124 million, compared with the same quarter last year. The increase was primarily due to:

- Favourable impacts from new business, which included the initial impact of a new €12 billion long-term longevity reinsurance agreement; and
- Higher business volumes;
- Partially offset by lower contributions from insurance contract liability basis changes and less favourable claims experience in the life and annuity business.

OTHER ITEMS

Adjusted net earnings in 2019 exclude a net charge of $426 million after tax consisting of:

- Net charge of $199 million (US$148 million) relating to the sale of the U.S. individual life insurance and annuity business recorded in the Reinsured Insurance and Annuity Business unit of the U.S. segment:
  - In the second quarter of 2019, Lifeco recognized a net loss on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life on June 1, 2019. The net charge included transaction costs of $63 million and $36 million related to updated expense assumptions related to stranded overhead on the retained business.
- Revaluation of a deferred tax asset resulted in a charge of $199 million (US$151 million) recorded in the Corporate business unit of the U.S. segment:
  - During the fourth quarter of 2019, Lifeco's management determined that a $199 million revaluation of a deferred income tax asset pertaining to Putnam was appropriate due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses generated in the earliest loss years.
- Restructuring charges of $36 million (US$28 million) recorded in the Corporate business unit of the U.S. segment:
  - During 2019, Putnam undertook actions to realign its resources to better position itself for current and future opportunities. These actions included technology modernization, product consolidation, a reduction in staff and facilities reorganization and resulted in restructuring charges in the fourth quarter which reduced net earnings by $36 million. Lifeco expects to realize US$33 million in pre-tax annual operating expense savings as a result of the restructuring activities by the end of the fourth quarter of 2020. As of December 31, 2019, approximately US$24 million in pre-tax annual operating expense savings have been achieved.
- Net gain of $8 million on the Scottish Friendly transaction recorded in the Corporate business unit of the Europe segment:
  - In 2018, Canada Life Limited, an indirect wholly owned U.K. subsidiary of Lifeco, announced an agreement to sell a heritage block of individual policies to Scottish Friendly, comprised of unit-linked policies and non-unit-linked policies. On October 22, 2019, the required court approval for the transfer of these policies was received and this transfer occurred, effective November 1, 2019. In the fourth quarter of 2019, Lifeco recognized a gain of $8 million after tax related to this transaction.

In 2018, Other items of $56 million after tax consisted of restructuring costs in the third quarter related to the U.K. operations.

The information above has been derived from Lifeco's annual MD&A; see Part C of this MD&A for additional information on Lifeco's results.

IGM FINANCIAL

Contribution to Power Financial

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Contribution to Power Financial's [1]:					
Adjusted net earnings					
As reported by IGM	473	487	125	126	111
Consolidation entries [2]	(8)	(25)	(9)	(2)	(6)
	465	462	116	124	105
Other items	(11)	(16)	(6)	–	–
Net earnings	454	446	110	124	105

[1] The average direct ownership of Power Financial in IGM was 61.9% for the year ended December 31, 2019 (61.4% in the corresponding period in 2018).

[2] Contribution to Power Financial includes adjustments in accordance with IAS 39 and the allocation of the results of Wealthsimple, Koho, Portag3 and Portag3 II.

Adjusted and net earnings per share as reported by IGM (in accordance with IFRS 9)

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Adjusted net earnings per share [1]	3.19	3.29	0.84	0.85	0.75
Other items [2]	(0.07)	(0.11)	(0.04)	–	–
Net earnings per share [1]	3.12	3.18	0.80	0.85	0.75

[1] Available to IGM common shareholders.

[2] See "Other items" section below.

Adjusted and net earnings by segments as reported by IGM (in accordance with IFRS 9)

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
IG Wealth Management	770	766	206	206	172
Mackenzie	169	178	42	46	35
Corporate and other	155	186	40	37	43
Adjusted net earnings (before interest, income taxes, preferred share dividends and other) [1]	1,094	1,130	288	289	250
Interest expense, income taxes, preferred share dividends and other [2]	(330)	(338)	(87)	(87)	(70)
Adjusted net earnings [3]	764	792	201	202	180
Other items [4]	(17)	(25)	(9)	–	–
Net earnings [3]	747	767	192	202	180

[1] Non-IFRS financial measure described in Part D of this MD&A.

[2] Interest expense includes interest on long-term debt and also includes interest on leases of $4.1 million in the twelve-month period ended December 31, 2019, as a result of IGM's adoption of IFRS 16, *Leases*.

[3] Available to IGM common shareholders.

[4] IGM does not allocate Other items to segments.

2019 vs. 2018	Q4 2019 vs. Q4 2018 and Q3 2019
Net earnings	
$747 million or $3.12 per share, compared with $767 million or $3.18 per share in the corresponding period in 2018, a decrease of 1.9% on a per share basis.	$192 million or $0.80 per share, compared with $180 million or $0.75 per share in the corresponding period in 2018, an increase of 6.7% on a per share basis, and $202 million or $0.85 per share in the third quarter of 2019.
Adjusted net earnings	
$764 million or $3.19 per share, compared with $792 million or $3.29 per share in the corresponding period in 2018, a decrease of 3.0% on a per share basis.	$201 million or $0.84 per share, compared with $180 million or $0.75 per share in the corresponding period in 2018, an increase of 12.0% on a per share basis, and $202 million or $0.85 per share in the third quarter of 2019.

On January 1, 2018, IGM adopted IFRS 9, *Financial Instruments*. Power Financial has deferred the adoption of IFRS 9 and continues to apply IAS 39. The contribution to Power Financial includes adjustments to reverse the impact of the application of IFRS 9 by IGM.

In January 2019, IGM invested a further $67 million (US$50 million) in Personal Capital which increased its voting interest to 22.7%. IGM has significant influence and accounts for its interest as an associate using the equity method. In accordance with IFRS 9, IGM previously classified its interest in Personal Capital as fair value through other comprehensive income (FVOCI), in which fair value changes remain permanently in equity. In accordance with IAS 39, the Corporation accounted for IGM's investment in Personal Capital as available for sale. The reclassification of the investment in the first quarter from available for sale to an associate, under IAS 39, resulted in a gain; the contribution of IGM to Power Financial has been adjusted accordingly.

Adjusted net earnings exclude a charge of $17 million in the twelve-month period ended December 31, 2019 and charges of $25 million in the corresponding period ended December 31, 2018. These Other items are not allocated to segments. The following is a summary of each segment's net earnings:

IG WEALTH MANAGEMENT

Net earnings increased by $4 million to $770 million in the twelve-month period ended December 31, 2019, compared with the corresponding period in 2018, due to:

- An increase in income from management fees of $30 million to $1,488 million. The increase was primarily due to an increase in average assets under management of 2.6%. The average management fee rate decreased by 0.5 basis points to 165.9 basis points of average assets under management, reflecting pricing reductions effective March 1, 2019; and
- An increase in net investment income of $10 million to $56 million, largely due to an increase of $9 million in fair value adjustments related to the mortgage banking operations;

Partially offset by:

- An increase in expenses of $24 million to $1,245 million in the twelve-month period, mainly due to an increase in non-commission expenses of $19 million, primarily due to increased technology expenses in the first quarter relating to the migration of clients to a new dealer platform and unbundled fee arrangements, as well as continued expenses associated with IG Wealth Management's brand relaunch;
- Asset-based compensation increased by $25 million in the twelve-month period primarily due to an increase in assets under management partially offset by a decrease in commissions of $19 million, primarily due to lower mutual fund sales partially offset by higher compensation related to the distribution of insurance products; and
- A decrease in administration fees of $11 million to $300 million. The decrease resulted primarily from the movement of assets into unbundled products which are not charged certain administration fees and changes in the composition of average assets under management.

Net earnings increased by $34 million to $206 million in the three-month period ended December 31, 2019, compared with the corresponding quarter in 2018, primarily due to:

- An increase in income from management fees of $25 million to $382 million. The increase was primarily due to an increase in average assets under management of 8.0%. The average management fee rate decreased by 0.9 basis points to 165.2 basis points of average assets under management, as explained above;
- An increase of net investment income of $6 million to $17 million, for the same reason as explained above; and
- A decrease in expenses of $4 million to $312 million in the three-month period, mainly due to a decrease in non-commission expenses of $8 million. The decrease was primarily due to advertising and marketing expenses resulting from the brand relaunch recorded in the fourth quarter of 2018. The increase in asset-based compensation of $7 million, due to an increase in average assets under management, was partially offset by a decrease in commission expenses of $4 million.

MACKENZIE

Net earnings decreased by $9 million to $169 million in the twelve-month period ended December 31, 2019, compared with the corresponding period in 2018, due to:

- An increase in expenses of $17 million to $643 million, due to an increase in non-commission expenses of $15 million and an increase in trailing commissions of $6 million related to the increase in average mutual fund assets, offset by a decline in the effective trailing commission rate, partially offset by a decrease in commission expense of $4 million;
- Partially offset by an increase in net investment income and other of $6 million to $4 million. Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds; and
- An increase in management fee revenue of $2 million to $704 million, mainly due to an increase in total average assets under management of 2.9%, offset by a decline in the effective management fee rate. The average management fee rate decreased by 2.5 basis points to 104.0 basis points due to a change in the composition of assets under management.

Net earnings increased by $7 million in the three-month period ended December 31, 2019, compared with the corresponding quarter in 2018, due to:

- An increase in management fee revenue of $11 million to $180 million, due to an increase in total average assets under management of 7.0%, offset by a decline in the average management fee rate of 0.5 basis points to 103.8 basis points; and
- An increase in net investment income and other of $4 million as explained above, and in administration fees of $2 million;
- Partially offset by an increase in expenses of $10 million to $167 million, as explained above.

ASSETS AND INVESTMENT FUND ASSETS UNDER MANAGEMENT

Total assets under management were as follows:

(In billions of dollars)	December 31, 2019	September 30, 2019	December 31, 2018	September 30, 2018
IG Wealth Management	93.2	90.8	83.1	89.0
Mackenzie	70.2	68.3	62.7	67.3
Corporate and other [1]	3.4	3.4	3.3	3.4
Total	166.8	162.5	149.1	159.7

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets subadvised by Mackenzie on behalf of other segments.

Total average daily investment fund assets under management were as follows:

				2019				2018
(In billions of dollars)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
IG Wealth Management	91.9	90.4	90.2	87.0	85.1	89.4	88.0	87.8
Mackenzie	63.0	61.8	60.8	58.2	57.1	59.5	57.9	57.1
Corporate and other [1]	4.6	4.6	4.7	4.7	4.8	5.1	5.0	5.2
Total	159.5	156.8	155.7	149.9	147.0	154.0	150.9	150.1

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets subadvised by Mackenzie on behalf of other segments.

OTHER ITEMS

Adjusted net earnings in 2019 exclude a net charge of $17 million, consisting of IGM's proportionate share of Lifeco's Other items of $9 million in the fourth quarter and $8 million in the second quarter.

Adjusted net earnings in 2018 excluded a net charge of $25 million after tax in the third quarter consisting of:

- Restructuring and other charges of $17 million: resulting from the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve IGM's offerings and operational effectiveness.
- A premium paid of $8 million: on early redemption of the $375 million 7.35% debentures on August 10, 2018.

The information above has been derived from IGM's annual MD&A; see Part D of this MD&A for more information on IGM's results.

PARGESA

Contribution to Power Financial

(In millions of Canadian dollars)	Twelve months ended December 31, 2019	Twelve months ended December 31, 2018	Three months ended December 31, 2019	Three months ended September 30, 2019	Three months ended December 31, 2018
Contribution to Power Financial's [1]:					
Adjusted net earnings					
As reported by Pargesa	181	116	51	40	21
Consolidation entries [2]	49	(77)	5	(5)	(74)
	230	39	56	35	(53)
Other items	(37)	18	(24)	(6)	18
Net earnings	193	57	32	29	(35)

[1] The average ownership of Power Financial in Pargesa was 27.8% for the year ended December 31, 2019 and 2018.

[2] The Corporation has not adopted IFRS 9. The contribution to Power Financial includes an adjustment to account for Pargesa under IAS 39 as described below.

Adjusted and net earnings as reported by Pargesa (in accordance with IFRS 9)

(In millions of Swiss francs)	Twelve months ended December 31, 2019	Twelve months ended December 31, 2018	Three months ended December 31, 2019	Three months ended September 30, 2019	Three months ended December 31, 2018
Contribution from the portfolio to adjusted net earnings					
Share of earnings of:					
Imerys	87	129	16	21	29
Parques	(9)	3	(3)	1	6
Dividends:					
LafargeHolcim	64	58	–	–	–
SGS	50	50	–	–	–
Pernod Ricard	36	28	22	–	16
adidas	25	21	–	–	–
Total	21	21	4	7	5
Umicore	20	18	–	10	–
GEA	8	6	–	–	–
Ontex	4	6	–	–	–
Other [1]	67	1	1	48	–
Contribution from private equity activities and other investment funds	161	31	122	18	11
	534	372	162	105	67
Net financial income (charges)	(11)	(26)	(16)	10	(5)
General expenses and taxes	(31)	(29)	(7)	(8)	(5)
Adjusted net earnings [2, 3]	492	317	139	107	57
Other items	(101)	44	(64)	(16)	53
Net earnings [3]	391	361	75	91	110

[1] Other dividends in 2019 mainly consist of a reimbursement of withholding taxes in the second and third quarters by the French tax authorities related to dividends received from Total and Engie between 2013 and 2016.

[2] Described as "Economic operating income" in Part E of this MD&A.

[3] Attributable to Pargesa shareholders.

2019 vs. 2018	Q4 2019 vs. Q4 2018 and Q3 2019
Net earnings	
SF391 million, compared with SF361 million in the corresponding period in 2018, an increase of 8.3%.	SF75 million, compared with SF110 million in the corresponding period in 2018, a decrease of 31.8%, and SF91 million in the third quarter of 2019.
Adjusted net earnings	
SF492 million, compared with SF317 million in the corresponding period in 2018, an increase of 55.2%.	SF139 million, compared with SF57 million in the corresponding period in 2018, and SF107 million in the third quarter of 2019.

Adjustments to the contribution of Pargesa

On January 1, 2018, Pargesa adopted IFRS 9, *Financial Instruments*. The majority of its investments in public entities are classified as FVOCI, an elective classification for equity instruments in which all fair value changes remain permanently in OCI.

The investments in private equity and other investment funds are classified as fair value through profit or loss (FVPL). The transition requirements of IFRS 9 required that all unrealized gains and losses at January 1, 2018 on investments previously classified as available for sale remain permanently in equity. Starting January 1, 2018, subsequent changes in fair value are recorded in earnings.

Power Financial has deferred the adoption of IFRS 9 and continues to apply IAS 39. The following table presents adjustments to the contribution of Pargesa to Power Financial's earnings in accordance with IAS 39:

	Twelve months ended		Three months ended		
(In millions of dollars)	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Partial disposal of interest in adidas [1]	71	–	–	–	–
Partial disposal of interest in LafargeHolcim [2]	24	–	24	–	–
Impairment charges [3]	(13)	(113)	–	–	(77)
Disposal of private equity funds [4]	1	25	–	1	4
Disposal of Burberry [5]	–	18	–	–	–
Reversal of unrealized (gains) losses on private equity funds and other [6]	(34)	(7)	(19)	(6)	(1)
Total	49	(77)	5	(5)	(74)

[1] During the first and second quarters of 2019, a portion of the investment in adidas was disposed of, resulting in gains of SF49 million and SF144 million, respectively. These gains were not reflected in Pargesa's earnings as the investment is classified as FVOCI. Power Financial's share of the realized gain was $18 million in the first quarter and $53 million in the second quarter.

[2] During the fourth quarter of 2019, a portion of the investment in LafargeHolcim was disposed of, resulting in a gain from the reversal of previous impairments of SF65 million. This gain was not reflected in Pargesa's earnings as the investment is classified as FVOCI. Power Financial's share was $24 million.

[3] Under IFRS 9, Pargesa classifies the majority of its investments in public entities as FVOCI, and as a result impairment charges are not recognized in earnings. Power Financial recognized impairment charges on the following investments:

- Ontex – During the second quarter of 2018, the share price of Ontex decreased to €18.81 per share from a cost of €27.62 per share. Power Financial recognized its share of the impairment charge of $34 million in the second quarter of 2018;

  During the remainder of 2018, the share price of Ontex decreased to €17.90 per share which resulted in further impairment charges, Power Financial's share was $3 million;

  During the second quarter of 2019, the share price of Ontex decreased to €14.18 per share. An impairment charge of $13 million was recognized by Power Financial, relating to its share of the impairment;
- GEA – During the fourth quarter of 2018, the share price declined to €22.50 per share from a cost of €35.63 per share, resulting in an impairment charge of SF118 million. Power Financial's share was $43 million;
- LafargeHolcim – The investment in LafargeHolcim has been previously impaired, resulting in an adjusted cost of €37.10 per share. During the fourth quarter of 2018, the share price decreased to €35.83 per share, resulting in an impairment charge of SF59 million including a foreign exchange loss. Power Financial's share was $22 million;
- Other investments – During the fourth quarter of 2018, Power Financial's share of impairment charges on other investments was $11 million.

[4] During the first and fourth quarters of 2018, three investments held through private equity funds, classified as FVPL in accordance with IFRS 9, were disposed of, which resulted in realized gains of SF57 million and SF11 million, respectively. These realized gains have not been recognized in Pargesa's earnings as the investments were reclassified from available for sale to FVPL on transition to IFRS 9 on January 1, 2018. On transition, the related unrealized gains recorded in other comprehensive income were transferred permanently to retained earnings. Power Financial's share of the realized gain was $25 million.

[5] During the second quarter of 2018, the investment in Burberry was disposed of, resulting in a gain of SF39 million. This gain was not reflected in Pargesa's earnings as it was classified as FVOCI. Power Financial's share of the realized gain was $18 million.

[6] Pargesa classifies private equity investments at FVPL in accordance with IFRS 9, and recognizes unrealized changes in fair value in earnings. Power Financial does not recognize these unrealized fair value changes in earnings as it continues to classify these private equity funds as available for sale in accordance with IAS 39.

Other than the share of earnings of Imerys and Parques, a significant portion of Pargesa's net earnings is composed of dividends from its non-consolidated investments, which are usually declared as follows:

- LafargeHolcim (second quarter)
- SGS (first quarter)
- adidas (second quarter)
- Umicore (second and third quarters)
- Total (second, third and fourth quarters)
- Pernod Ricard (second and fourth quarters)
- GEA (second quarter)
- Ontex (second quarter)

RESULTS

Net earnings in the twelve-month period ended December 31, 2019 increased by SF30 million to SF391 million, compared with the corresponding period in 2018. Adjusted net earnings in the twelve-month period ended December 31, 2019 were SF492 million, compared with SF317 million in the corresponding period in 2018. Other items, discussed below, were a charge of SF101 million in the twelve-month period ended December 31, 2019, compared with a positive earnings impact of SF44 million in 2018. The increase in net earnings is mainly due to:

- An increase in dividends of SF86 million to SF295 million, compared with SF209 million in the corresponding period in 2018. Dividends from its principal holdings increased by SF20 million, primarily due to the increase in dividends per share paid by certain portfolio companies, impact of additional investments made in Umicore and GEA, as well as the monetization of a stock dividend received from LafargeHolcim. Other dividends include SF62 million related to reimbursements by the French tax authorities for withholding taxes which had been applied to dividends received from Total and Engie between 2013 and 2016;
- An increase in the contribution from private equity activities and other investment funds of SF130 million, mainly due to fair value increases of the non-consolidated funds and realized gains of SF70 million on the sale of investments in Looping and opseo; and
- A decrease in net financial charges of SF15 million from the corresponding period in 2018 to SF11 million mainly due to income from default interest on the withholding taxes which have been applied to the dividend reimbursements discussed above, offset by the net impact of fair value adjustments to derivative instruments.

Partially offset by:

- A decrease in the contribution from Imerys to adjusted net earnings, excluding other items of SF49 million as discussed below, from SF129 million to SF87 million at December 31, 2019, primarily due to a decrease in revenue from a market slowdown, especially in the manufacturing sector which deteriorated throughout the year, the deconsolidation of the North American talc subsidiaries and to the temporary shutdown of a U.S. plant in the first half of 2019. The decline was partially offset by a positive effect of pricing and cost saving measures; and
- A decrease in the contribution from Parques of SF12 million to a loss of SF9 million at December 31, 2019.

Net earnings in the three-month period ended December 31, 2019 decreased by SF35 million to SF75 million, compared with the corresponding quarter in 2018. Adjusted net earnings in the three-month period ended December 31, 2019 were SF139 million, compared with SF57 million in the corresponding quarter in 2018. Other items, discussed below, were a charge of SF64 million in the three-month period ended December 31, 2019, compared with a net positive earnings impact of SF53 million in the corresponding quarter in 2018. The decrease in net earnings is mainly due to:

- A decrease in the contribution from Imerys to adjusted net earnings of SF13 million, from SF29 million to SF16 million at December 31, 2019, as explained above;
- A decrease in the contribution from Parques of SF9 million to a loss of SF3 million at December 31, 2019; and
- An increase in net financial charges of SF11 million to SF16 million in the fourth quarter of 2019.

Partially offset by:

- An increase in dividends of SF6 million to SF27 million, compared with SF21 million in the corresponding period in 2018. Dividends from its principal holdings increased by SF5 million; and
- An increase in the contribution from private equity activities and other investment funds of SF111 million, as explained above.

OTHER ITEMS

Other items in 2019 were SF101 million and mainly consisted of:

- Pargesa's share of Imerys' charges of SF49 million:
  - Charges of SF21 million relating to the implementation of a transformation program and charges related to the temporary shutdown of a U.S. plant, primarily recognized in the second quarter;
  - Charges of SF28 million relating to costs incurred by Imerys as part of its transformation program and depreciation of non-core assets due to the deconsolidation of the North American talc subsidiaries, recognized in the fourth quarter;
- Pargesa's share of Parques' charges of SF38 million: non-recurring expenses recorded by Parques, of which SF16 million was recognized in the third quarter and SF22 million in the fourth quarter; and
- Pargesa's share of SF11 million related to the contribution recognized by GBL following the acquisition of Webhelp, which primarily consists of GBL's share of transaction costs to complete the acquisition, recognized in the fourth quarter.

Other items in 2018 were a positive earnings impact of SF44 million mainly consisting of:

- Imerys' disposal of its roofing division, Imerys Toiture, in the fourth quarter. Pargesa's share of the gain amounted to SF235 million;
- Restructuring and other charges recognized by Imerys in the fourth quarter relating to its North American talc subsidiaries, ceramic proppants and graphite and carbon divisions. Pargesa's share of the restructuring and other charges recognized by Imerys were SF186 million, and also include other acquisition costs and provisions for rehabilitation and restructuring costs.

AVERAGE EXCHANGE RATES

The average exchange rates for the twelve-month and three-month periods ended December 31, 2019 and 2018 were as follows:

	Twelve months ended			Three months ended		
	December 31, 2019	December 31, 2018	Change %	December 31, 2019	December 31, 2018	Change %
Euro/SF	1.113	1.155	(3.6)	1.096	1.136	(3.5)
SF/CAD	1.335	1.325	0.8	1.334	1.326	0.6

The information above has been derived from Pargesa's 2019 year-end press release; see Part E of this MD&A for additional information on Pargesa's results.

CORPORATE OPERATIONS

Corporate operations include income (loss) from investments, operating expenses, financing charges, depreciation and income taxes.

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Income (loss) from investments	(8)	(15)	(6)	2	(8)
Operating and other expenses					
Operating expenses	(83)	(85)	(27)	(18)	(24)
Financing charges	(18)	(18)	(4)	(5)	(5)
Depreciation	(3)	(2)	–	(1)	(1)
Income taxes	(2)	(1)	(1)	–	–
	(106)	(106)	(32)	(24)	(30)
Corporate operations	(114)	(121)	(38)	(22)	(38)

OTHER ITEMS (NOT INCLUDED IN ADJUSTED NET EARNINGS)

The following table presents the Corporation's share of Other items:

	Twelve months ended		Three months ended		
	December 31, 2019	December 31, 2018	December 31, 2019	September 30, 2019	December 31, 2018
Lifeco					
Net charge on the sale of U.S. individual life insurance and annuity business	(134)	–	–	–	–
Net charge on the revaluation of a deferred tax asset	(133)	–	(133)	–	–
Restructuring charges	(24)	(38)	(24)	–	–
Net gain on the Scottish Friendly transaction	6	–	6	–	–
Share of IGM's other items	–	(1)	–	–	–
	(285)	(39)	(151)	–	–
IGM					
Restructuring and other charges	–	(10)	–	–	–
Premium paid on early redemption of debentures	–	(5)	–	–	–
Share of Lifeco's other items	(11)	(1)	(6)	–	–
	(11)	(16)	(6)	–	–
Pargesa					
Imerys – Disposal of roofing activity	–	86	–	–	86
Imerys – Impairments, restructuring charges and other	(18)	(68)	(11)	–	(68)
Parques and other charges	(19)	–	(13)	(6)	–
	(37)	18	(24)	(6)	18
Corporate operations					
Reorganization charges	(9)	–	(9)	–	–
	(342)	(37)	(190)	(6)	18

Corporate operations

The Corporation incurred $9 million of costs related to the Reorganization, primarily related to legal and financial advisor fees, in the fourth quarter ended December 31, 2019.

For additional information, refer to the Lifeco, IGM and Pargesa "Other items" sections above.

Financial Position

CONSOLIDATED BALANCE SHEETS (CONDENSED)

The condensed balance sheets of Lifeco and IGM, and Power Financial's non-consolidated balance sheet are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation at December 31, 2019.

	Power Financial	Lifeco	IGM	Consolidation adjustments and other [1]	Power Financial Consolidated balance sheets	
					December 31, 2019	December 31, 2018
Assets						
Cash and cash equivalents	1,021	4,628	720	(97)	6,272	5,624
Investments [2]	203	163,756	7,555	(266)	171,248	181,179
Investment in:						
Lifeco	13,654	–	897	(14,551)	–	–
IGM	2,720	350	–	(3,070)	–	–
Parjointco	3,954	–	–	–	3,954	3,291
Other [3]	–	53	857	38	948	718
Assets held for sale	–	–	–	–	–	897
Funds held by ceding insurers	–	8,714	–	–	8,714	9,251
Reinsurance assets [2]	–	20,707	–	–	20,707	6,126
Other assets	137	11,553	1,472	263	13,425	11,948
Intangible assets	1	3,879	1,230	62	5,172	5,229
Goodwill	–	6,505	2,660	745	9,910	9,946
Investments on account of segregated fund policyholders	–	231,022	–	–	231,022	209,527
Investments on account of segregated fund policyholders held for sale	–	–	–	–	–	3,319
Total assets	21,690	451,167	15,391	(16,876)	471,372	447,055
Liabilities						
Insurance and investment contract liabilities	–	176,177	–	–	176,177	168,431
Liabilities held for sale	–	–	–	–	–	897
Obligations to securitization entities	–	–	6,914	–	6,914	7,370
Debentures and other debt instruments	250	5,993	2,100	(93)	8,250	8,492
Other liabilities	625	12,432	1,878	362	15,297	14,070
Insurance and investment contracts on account of segregated fund policyholders	–	231,022	–	–	231,022	209,527
Insurance and investment contracts on account of segregated fund policyholders held for sale	–	–	–	–	–	3,319
Total liabilities	875	425,624	10,892	269	437,660	412,106
Equity						
Perpetual preferred shares	2,830	2,714	–	(2,714)	2,830	2,830
Common shareholders' equity [4]	17,985	19,963	4,499	(24,462)	17,985	18,750
Non-controlling interests [5, 6]	–	2,866	–	10,031	12,897	13,369
Total equity	20,815	25,543	4,499	(17,145)	33,712	34,949
Total liabilities and equity	21,690	451,167	15,391	(16,876)	471,372	447,055

[1] Consolidation adjustments and other includes Portag3, Portag3 II, Wealthsimple and Koho, as well as consolidation entries.

[2] As a result of Lifeco's indemnity reinsurance agreement with Protective Life on June 1, 2019, investments of $15.5 billion were derecognized and reinsurance assets of $15.2 billion were recognized.

[3] Includes investment in jointly controlled corporations and associates.

[4] Opening retained earnings were decreased by $80 million as a result of the adoption of IFRS 16, *Leases* and the application of IFRIC 23, *Uncertainty over Income Tax Treatments*; refer to the "Changes in Accounting Policies" section for more details.

[5] Lifeco's non-controlling interests include the Participating Account surplus in subsidiaries.

[6] Non-controlling interests in consolidation adjustments represent non-controlling interests in the equity of Lifeco, IGM, Wealthsimple and Koho.

Total assets of the Corporation increased to $471.4 billion at December 31, 2019, compared with $447.1 billion at December 31, 2018, primarily due to the impact of market movement and new business growth, partially offset by the impact of currency movement.

In June 2018, a subsidiary of Lifeco announced its agreement to sell a heritage block of policies to Scottish Friendly Assurance Society Limited (Scottish Friendly) and the amounts related to the unit-linked and non-unit-linked policies were classified as assets held for sale. On October 22, 2019, the required court approval for the transfer of these policies was received and the transfer occurred with effect from November 1, 2019. See Note 4 to the Corporation's 2019 Consolidated Financial Statements.

Liabilities increased to $437.7 billion at December 31, 2019, compared with $412.1 billion at December 31, 2018, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contracts on account of segregated fund policyholders increased by $21.5 billion, primarily due to the combined impact of market value gains and investment income of $27.3 billion, partially offset by the impact of currency movement of $6.5 billion.
- Insurance and investment contract liabilities increased by $7.7 billion, primarily due to fair value adjustments and the impact of new business, partially offset by the weakening of the euro, British pound, and U.S. dollar against the Canadian dollar.
- The transfer of a heritage block of policies to Scottish Friendly occurred with effect from November 1, 2019. See Note 4 to the Corporation's 2019 Consolidated Financial Statements.

Parts C and D of this MD&A include a discussion of the consolidated balance sheets of Lifeco and IGM, respectively.

NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation shown below, Lifeco and IGM are presented by the Corporation using the equity method. These non-consolidated balance sheets, which are not in accordance with IFRS, enhance the MD&A and assist the reader by identifying changes in Power Financial's non-consolidated balance sheets.

	December 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents [1]	1,021	1,025
Investments		
Lifeco	13,654	15,088
IGM	2,720	2,688
Parjointco	3,954	3,291
Other [2]	203	184
Other assets	138	115
Total assets	21,690	22,391
Liabilities		
Debentures	250	250
Other liabilities	625	561
Total liabilities	875	811
Equity		
Perpetual preferred shares	2,830	2,830
Common shareholders' equity	17,985	18,750
Total equity	20,815	21,580
Total liabilities and equity	21,690	22,391

[1] Cash equivalents include $200 million ($293 million at December 31, 2018) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified as investments in the Consolidated Financial Statements.

[2] Includes Power Financial's investments in Portag3, Portag3 II, Wealthsimple and Koho presented using the equity method.

Cash and cash equivalents

Cash and cash equivalents held by Power Financial amounted to $1,021 million at December 31, 2019, compared with $1,025 million at the end of December 2018. The fourth quarter dividends declared by the Corporation and paid on January 31, 2020 are included in other liabilities and amounted to $337 million. Dividends declared in the fourth quarter by IGM and received by the Corporation on January 31, 2020 are included in other assets and amounted to $83 million (see "Non-consolidated Statements of Cash Flows" below for details).

Investments in Lifeco, IGM and Parjointco

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, accounted for using the equity method, decreased to $20,328 million at December 31, 2019, compared with $21,067 million at December 31, 2018:

	Lifeco	IGM	Parjointco	Total
Carrying value, at the beginning of the year	15,088	2,688	3,291	21,067
Change in accounting policies [1]	(74)	(6)	–	(80)
Restated carrying value, at the beginning of the year	15,014	2,682	3,291	20,987
Participation in the Lifeco SIB	(1,652)	–	–	(1,652)
Share of adjusted net earnings	1,864	465	230	2,559
Share of other items	(285)	(11)	(37)	(333)
Share of other comprehensive income (loss)	(379)	(63)	545	103
Dividends	(1,045)	(333)	(80)	(1,458)
Other [2]	137	(20)	5	122
Carrying value, at December 31, 2019	13,654	2,720	3,954	20,328

[1] Refer to the "Changes in Accounting Policies" section for more details.

[2] Mainly related to a dilution gain as a result of the Lifeco SIB, and the effect of the share repurchase program as part of a normal course issuer bid by Lifeco and IGM.

EQUITY

Preferred shares

Preferred shares of the Corporation consist of 11 series of Non-Cumulative Fixed Rate First Preferred Shares, two series of Non-Cumulative 5-Year Rate Reset First Preferred Shares, and two series of Floating Rate First Preferred Shares, one of which is Non-Cumulative, with an aggregate stated capital of $2,830 million at December 31, 2019 (same as at December 31, 2018). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

The terms and conditions of the outstanding First Preferred Shares are described in Note 18 to the Corporation's 2019 Consolidated Financial Statements.

Common shareholders' equity

Common shareholders' equity was $17,985 million at December 31, 2019, compared with $18,750 million at December 31, 2018:

Twelve months ended December 31	2019	2018
Common shareholders' equity, at the beginning of the year	18,750	17,323
Change in accounting policies [1]	(80)	–
Restated common shareholders' equity, at the beginning of the year	18,670	17,323
Changes in retained earnings		
Net earnings before dividends on perpetual preferred shares	2,103	2,383
Dividends declared	(1,372)	(1,375)
Repurchase of common shares under PFC SIB	(1,650)	–
Effects of changes in capital and ownership of subsidiaries, and other	99	(62)
	(820)	946
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	(361)	529
Investment revaluation and cash flow hedges	73	(55)
Actuarial gains (losses) on defined benefit plans	(133)	22
Share of Pargesa and other associates	517	(25)
Share-based compensation, including the effect of subsidiaries	39	3
	135	474
Issuance of common shares (nil in 2019 and 225,000 shares in 2018) under the Corporation's Employee Stock Option Plan	–	7
Common shareholders' equity, at December 31	17,985	18,750

[1] Refer to the "Changes in Accounting Policies" section for more details.

The book value per common share of the Corporation was $27.08 at December 31, 2019, compared with $26.26 at the end of 2018.

Outstanding number of common shares

At the date of this MD&A, there were 664,096,506 common shares of the Corporation outstanding, compared with 714,096,479 at December 31, 2018. All of the common shares of the Corporation are now held by Power Corporation.

STOCK OPTION PLAN

As a part of the Reorganization, Power Corporation assumed the Corporation's stock option plan. The 13,079,888 options outstanding at February 13, 2020 under Power Financial's Employee Stock Option Plan were exchanged for options to acquire Subordinate Voting Shares of Power Corporation. As such, at the date of this MD&A, there were no options outstanding to purchase common shares of the Corporation.

Substantial issuer bids

On April 17, 2019, Lifeco completed a substantial issuer bid and purchased for cancellation 59,700,974 of its common shares at a purchase price of $33.50 per common share. The Corporation participated in the Lifeco SIB and as a result, the Corporation's equity interest decreased from 67.8% to 66.8% (excluding IGM's 4.0% interest). The decrease in ownership in Lifeco resulted in a dilution gain of $108 million recorded in retained earnings and other comprehensive income reserve with a corresponding decrease in non-controlling interests.

As part of the Corporation's substantial issuer bid, Power Corporation, the parent company of the Corporation, participated in the PFC SIB. Power Corporation effected its tender offer through a Qualifying Holdco Alternative (as described in the Offer), which the Corporation also offered to other shareholders, pursuant to which the Corporation issued and subsequently cancelled 467,839,296 common shares. This resulted in a net increase in stated capital of $556 million and a corresponding decrease in retained earnings, with no impact to equity.

On April 17, 2019, the Corporation completed its substantial issuer bid and purchased for cancellation 49,999,973 of its common shares at a purchase price of $33.00 per common share for an aggregate amount of $1.65 billion. The excess paid under the PFC SIB over the stated capital of $1.55 billion was recognized as a reduction to retained earnings. Transaction costs incurred in connection with the PFC SIB of $5 million were recorded in retained earnings.

Net Asset Value

Net asset value represents management's estimate of the fair value of the common shareholders' equity of the Corporation. Net asset value is the fair value of the assets of Power Financial's non-consolidated balance sheet less its net debt and preferred shares. In determining the fair value of assets, investments in subsidiaries, jointly controlled corporations and associates are adjusted to fair value as follows:

- Investments in publicly traded companies are valued at their market value, measured as the closing share price on the reporting date;
- Investments in private entities are valued at fair value based on management's estimate using consistently applied valuation models either based on a valuation multiple or discounted cash flows. Certain valuations are prepared by external valuators or subject to review by external valuators. Market-comparable transactions are generally used to corroborate the estimated fair value. The value of investments in private entities is presented net of any management incentives;
- Investments in investment funds are valued at the fair value reported by the fund which is net of carried interest or other incentives.

The presentation of the investments in subsidiaries, jointly controlled corporations and associates at fair value is not in accordance with IFRS; net asset value is a non-IFRS financial measure.

The Corporation's net asset value per share was $39.86 at December 31, 2019, compared with $32.96 at December 31, 2018, representing an increase of 20.9%.

	December 31, 2019			December 31, 2018		
	Non-consolidated balance sheet	Fair value adjustment	Net asset value	Non-consolidated balance sheet	Fair value adjustment	Net asset value
Assets						
Investments						
Lifeco [1]	13,654	6,976	20,630	15,088	3,780	18,868
IGM	2,720	2,795	5,515	2,688	1,902	4,590
Parjointco	3,954	(1,413)	2,541	3,291	(983)	2,308
Other [2]	203	127	330	184	90	274
Cash and cash equivalents	1,021	–	1,021	1,025	–	1,025
Other assets [3]	138	–	138	115	–	115
Total assets	21,690	8,485	30,175	22,391	4,789	27,180
Liabilities and preferred shares						
Debentures	250	–	250	250	–	250
Other liabilities [4]	625	–	625	561	–	561
Perpetual preferred shares	2,830	–	2,830	2,830	–	2,830
Total liabilities and preferred shares	3,705	–	3,705	3,641	–	3,641
Net value						
Common shareholders' equity / Net asset value	17,985	8,485	26,470	18,750	4,789	23,539
Per share	**27.08**		**39.86**	26.26		32.96

[1] As a result of the Corporation's participation in Lifeco's SIB in the second quarter of 2019, the number of shares held by the Corporation decreased by 7.4% or 49,318,032 from 669,568,064 to 620,250,032 (equity interest decreased from 67.8% to 66.8%).

[2] Fair value adjustment is related to Power Financial's investments in Portag3, Portag3 II, Wealthsimple and Koho.

[3] Includes $83 million of dividends declared in the fourth quarter by IGM and received by the Corporation on January 31, 2020 (same as at December 31, 2018).

[4] Includes $337 million of dividends declared in the fourth quarter by the Corporation and paid on January 31, 2020 ($344 million at December 31, 2018).

Investments measured at market value and cash represent 98.4% of the total assets at fair value at December 31, 2019 (98.6% at December 31, 2018).

Power Financial's net asset value per share was $28.01, based on: i) market values of publicly listed investments at March 17, 2020 and ii) fair values for non-publicly listed investments at December 31, 2019.

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

The condensed cash flows of Lifeco and IGM, and Power Financial's non-consolidated cash flows, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the twelve-month period ended December 31, 2019.

Twelve months ended December 31	Power Financial	Lifeco	IGM	Consolidation adjustments and other [1]	Power Financial Consolidated 2019	Power Financial Consolidated 2018
Cash flows from:						
Operating activities	1,414	6,110	712	(1,528)	6,708	7,129
Financing activities	(3,035)	(3,981)	(1,069)	3,213	(4,872)	(2,278)
Investing activities	1,617	(1,539)	427	(1,563)	(1,058)	(4,714)
Effect of changes in exchange rates on cash and cash equivalents	–	(130)	–	–	(130)	166
Increase (decrease) in cash and cash equivalents	(4)	460	70	122	648	303
Cash and cash equivalents, at the beginning of the year	1,025	4,168	650	(219)	5,624	5,321
Cash and cash equivalents, at December 31	1,021	4,628	720	(97)	6,272	5,624

[1] Consolidation adjustments and other includes Portag3, Portag3 II, Wealthsimple and Koho, as well as consolidation entries.

Consolidated cash and cash equivalents increased by $648 million in the twelve-month period ended December 31, 2019, compared with an increase of $303 million in the corresponding period in 2018.

Operating activities produced a net inflow of $6,708 million in the twelve-month period ended December 31, 2019, compared with a net inflow of $7,129 million in the corresponding period in 2018.

Cash flows from financing activities, which include the repurchase of common shares pursuant to the Lifeco SIB and the PFC SIB, dividends paid on the common and preferred shares of the Corporation, and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of $4,872 million in the twelve-month period ended December 31, 2019, compared with a net outflow of $2,278 million in the corresponding period in 2018.

Cash flows from investing activities resulted in a net outflow of $1,058 million in the twelve-month period ended December 31, 2019, compared with a net outflow of $4,714 million in the corresponding period in 2018.

The Corporation decreased its level of fixed income securities with maturities of more than three months, resulting in a net inflow of $93 million in the twelve-month period ended December 31, 2019, compared with a net outflow of $12 million in the corresponding period in 2018.

Parts C and D of this MD&A include a discussion of the cash flows of Lifeco and IGM, respectively.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Financial is a holding company, corporate cash flows are primarily comprised of dividends received from Lifeco, IGM and Parjointco and income (loss) from cash and cash equivalents, less operating expenses, financing charges, income taxes, and preferred and common share dividends.

The following non-consolidated statements of cash flows of the Corporation, which are not presented in accordance with IFRS, have been prepared to assist the reader as they isolate the cash flows of Power Financial, the parent company.

Twelve months ended December 31	2019	2018
Operating activities		
Dividends		
Lifeco	1,045	1,042
IGM	333	333
Pargesa	80	75
	1,458	1,450
Corporate operations, net of non-cash items	(44)	(64)
	1,414	1,386
Financing activities		
Dividends paid on perpetual preferred shares	(139)	(138)
Dividends paid on common shares	(1,239)	(1,222)
Issuance of common shares	–	7
Repurchase of common shares under PFC SIB	(1,650)	–
Share repurchase expenses and other	(7)	–
	(3,035)	(1,353)
Investing activities		
Proceeds from tender of Lifeco shares under Lifeco SIB	1,652	–
Investments in Portag3 Funds and Wealthsimple, net of distributions	(35)	(62)
	1,617	(62)
Decrease in cash and cash equivalents	(4)	(29)
Cash and cash equivalents, at the beginning of the year	1,025	1,054
Cash and cash equivalents, at December 31	1,021	1,025

On a non-consolidated basis, cash and cash equivalents decreased by $4 million in the twelve-month period ended December 31, 2019, compared with a decrease of $29 million in the corresponding period in 2018.

Operating activities resulted in a net inflow of $1,414 million in the twelve-month period ended December 31, 2019, compared with a net inflow of $1,386 million in the corresponding period in 2018.

- Dividends paid by Lifeco on its common shares during the twelve-month period ended December 31, 2019 were $1.652 per share, compared with $1.556 in the corresponding period in 2018. In the twelve-month period ended December 31, 2019, the Corporation received dividends from Lifeco of $1,045 million, compared with $1,042 million in the corresponding period in 2018. On February 12, 2020, Lifeco announced a 6.0% increase in the quarterly dividend on its common shares, from $0.4130 per share to $0.4380 per share, payable on March 31, 2020.
- Dividends paid by IGM on its common shares during the twelve-month period ended December 31, 2019 were $2.25 per share, the same as in the corresponding period in 2018. In the twelve-month period ended December 31, 2019, the Corporation received dividends from IGM of $333 million, the same as in the corresponding period in 2018.
- Pargesa declares and pays an annual dividend in the second quarter. The dividend paid by Pargesa to Parjointco in 2019 amounted to SF2.56 per bearer share, compared with SF2.50 in 2018. The Corporation received dividends of $80 million (SF60 million) from Parjointco in 2019, compared with $75 million (SF59 million) in 2018. On March 11, 2020, Pargesa announced that its board of directors will recommend the distribution of a dividend for the 2019 financial year of SF2.63 per bearer share, representing an increase of 2.7%.

The Corporation's financing activities during the twelve-month period ended December 31, 2019 were a net outflow of $3,035 million, compared with a net outflow of $1,353 million in the corresponding period in 2018, and included:

- Dividends paid on preferred and common shares by the Corporation of $1,378 million, compared with $1,360 million in the corresponding period in 2018. In the twelve-month period ended December 31, 2019, dividends paid on the Corporation's common shares were $1.7995 per share, compared with $1.7115 per share in the corresponding period in 2018.
- No common shares issued for employee stock options exercised in the period, compared with common shares issued of $7 million in the corresponding period in 2018.
- Repurchase of common shares pursuant to the PFC SIB of $1,650 million in the period, compared with no repurchase in the corresponding period in 2018.

The Corporation's investing activities during the twelve-month period ended December 31, 2019 were a net inflow of $1,617 million, primarily due to proceeds received from participation in the Lifeco SIB, compared with a net outflow of $62 million in the corresponding period in 2018.

Capital Management

Subsequent to the Reorganization, Power Corporation holds 100% of the issued and outstanding common shares of the Corporation, the Corporation's preferred shares and debt securities remain outstanding. As a holding company, Power Financial's objectives in managing its capital are to:

- provide attractive long-term returns to the shareholder of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present;
- maintain a capital structure that matches the long-term nature of its investments by maximizing the use of permanent capital; and
- maintain an appropriate credit rating to ensure stable access to the capital markets.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital.

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of common shares, perpetual preferred shares and debentures. The boards of directors of the Corporation's subsidiaries, as well as those of Pargesa and GBL, oversee and have the responsibility for their respective company's capital management.

With the exception of debentures and other debt instruments, the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of: debentures, perpetual preferred shares, common shareholders' equity, and non-controlling interests. The Corporation views perpetual preferred shares as a cost-effective source of permanent capital.

On April 17, 2019, the Corporation completed the PFC SIB and repurchased for cancellation $1.65 billion of its common shares. The PFC SIB facilitated the repurchase of common shares at attractive market valuations and returned capital to shareholders while maintaining Power Financial's strong capital position to fund future growth opportunities.

The Corporation's consolidated capitalization includes the debentures, preferred shares and other debt instruments issued by its consolidated subsidiaries. Debentures and other debt instruments issued by Lifeco and IGM are non-recourse to the Corporation. The Corporation does not guarantee debt issued by its subsidiaries. Perpetual preferred shares and total equity accounted for 80% of consolidated capitalization at December 31, 2019.

	December 31, 2019	December 31, 2018
Debentures and other debt instruments		
Power Financial	250	250
Lifeco	5,993	6,459
IGM	2,100	1,850
Other subsidiaries and consolidation adjustments	(93)	(67)
	8,000	8,242
	8,250	8,492
Preferred shares		
Power Financial	2,830	2,830
Lifeco	2,714	2,714
IGM	–	150
	2,714	2,864
	5,544	5,694
Equity		
Common shareholders' equity	17,985	18,750
Non-controlling interests [1]	10,183	10,505
	28,168	29,255
	41,962	43,441

[1] Represents the non-controlling equity interests of the Corporation's subsidiaries excluding Lifeco and IGM's preferred shares, which are shown in this table as preferred shares.

Lifeco

- On December 10, 2019, Great-West Life & Annuity Insurance Capital, LP redeemed all $232 million (US$175 million) aggregate principal amount 6.625% deferrable debentures due November 15, 2034 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest up to but excluding the redemption date. A portion of the $1.0 billion cash received from the indemnity reinsurance agreement with Protective Life was used for the redemption.

IGM

- On March 20, 2019, IGM issued $250 million of 4.206% debentures maturing March 21, 2050. Part of the proceeds were used by IGM to fund the redemption of its $150 million issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B on April 30, 2019.

The Corporation itself is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries, IGM's subsidiaries and certain of the Corporation's other subsidiaries are subject to regulatory capital requirements. Parts C and D of this MD&A further describe the capital management activities of Lifeco and IGM, respectively. See Note 21 to the Corporation's 2019 Consolidated Financial Statements for additional information.

RATINGS

The current rating by Standard & Poor's (S&P) of the Corporation's debentures is "A+" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Corporation's debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites. These ratings are not a recommendation to buy, sell or hold the securities of a corporation and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The "A+" rating assigned to the Corporation's debentures by S&P is the fifth highest of the 22 ratings used for long-term debt. A long-term debenture rated "A+" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

The "A (High)" rating assigned to the Corporation's debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A (High)" implies that the capacity for repayment is substantial, but of lesser credit quality than AA, and may be vulnerable to future events, although qualifying negative factors are considered manageable.

Risk Management

Power Financial is an international management and holding company with interests in financial services and asset management businesses in Canada, United States and Europe. Its principal holdings are a controlling interest in each of Lifeco and IGM and a joint controlling interest in Parjointco, which itself holds a controlling interest in GBL through Pargesa. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. A complete description of these risks is presented in their public disclosures. The respective boards of directors of Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain officers of the Corporation are members of these boards and committees of these boards and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies. Parts C and D of this MD&A further describe risks related to Lifeco and IGM, respectively.

RISK OVERSIGHT APPROACH

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors and executive officers of the Corporation have overall oversight and responsibility for risk management associated with the investment activities and operations of the holding company and maintain a comprehensive and appropriate set of policies and controls.

The Board of Directors provides oversight and throughout 2019, carried out its risk management mandate primarily through the following committees:

- The Audit Committee addressed risks related to financial reporting and cybersecurity.
- The Compensation Committee considered risks associated with the Corporation's compensation policies and practices.
- The Governance and Nominating Committee oversaw the Corporation's approach to appropriately address potential risks related to governance matters.
- The Related Party and Conduct Review Committee reviewed and considered for approval transactions with related parties of the Corporation.

Following the Reorganization, the Board of Directors will continue to provide oversight and will carry out its risk management mandate primarily through its Audit Committee, which will continue to address the risks related to financial reporting and cybersecurity and will also review and consider the approval of transactions with related parties of the Corporation.

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following risks and others discussed elsewhere in the MD&A, which investors should carefully consider before investing in securities of the Corporation. The following is a review of certain risks that could impact the financial condition and financial performance, and the value of the equity of the Corporation, and has been updated to reflect the effects of the Reorganization, including that the common shares of the Corporation have been delisted from the TSX. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

STRATEGIC RISK

Strategic risk arises as a result of ineffective strategic decision making, inadequate strategies or a lack of responsiveness to important changes to the business environment, including macroeconomic or country risk events, or changes to the regulatory environment. In addition, strategic risk includes risks associated with the Corporation's holding company structure and potential future acquisitions.

The successful execution of the Corporation's investment strategy is uncertain as it requires suitable opportunities, careful timing and business judgment. The Corporation's approach consists in overseeing, through the Board of Directors, its operating businesses and investments with a view to generate long-term, sustainable growth in earnings and dividends. The Corporation aims to act like an owner with a long-term perspective and a strategic vision anchored in strong core values.

The Chief Executive Officer is responsible for developing the Corporation's proposed strategic plans, in light of emerging opportunities and risks and with a view to the Corporation's sustained profitable growth and long-term value creation, and for implementing the approved strategic plans. The Board of Directors is responsible for approving the long-term goals and objectives for the Corporation; and, after considering alternatives, approving the strategic plans developed by the Chief Executive Officer. The Board of Directors also monitors senior management's implementation of the approved plans; assesses the achievement of the Corporation's goals and objectives; reviews and approves on at least an annual basis management's financial plan; and reviews and approves any significant transactions and strategic capital management decisions regarding the Corporation.

LIQUIDITY RISK

Liquidity risk is the risk that the Corporation would not be able to meet all cash outflow obligations as they come due or be able to, in a timely manner, raise capital or monetize assets at normal market conditions.

As a holding company, Power Financial's ability to meet its obligations, including payment of interest, other operating expenses and dividends, and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon dividends from its principal subsidiaries and other investments, and its ability to raise additional capital. Dividends to shareholders of Power Financial are dependent on the operating performance, profitability, financial position and creditworthiness of its subsidiaries, jointly controlled corporations and associates, as well as on their ability to pay dividends. The payment of interest and dividends by Power Financial's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained.

The Corporation regularly reviews its liquidity requirements and seeks to maintain a sufficient level of liquidity to meet its operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time, as defined in its policies. The ability of Power Financial to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Financial and its subsidiaries. Although the Corporation has been able to access capital on financial markets in the past, there can be no assurance this will be possible in the future. The inability of Power Financial to access sufficient capital on acceptable terms could have a material adverse effect on the Corporation's business, prospects, dividend paying capability and financial condition, and further enhancement opportunities or acquisitions.

Power Financial's management of liquidity risk has not changed materially since December 31, 2018.

Credit Risk and Market Risk

In order to maintain an appropriate level of available liquidity, the Corporation maintains a portfolio of financial instruments which can be a combination of cash and cash equivalents, fixed income securities, other investments (consisting of private and public equity securities) and derivatives which bear credit and market risks as described in the following sections.

CREDIT RISK

Credit risk is the potential for financial loss to the Corporation if a counterparty in a transaction fails to meet its payment obligations. Credit risk can be related to the default of a single debt issuer, the variation of credit spreads on tradable fixed income securities and also to counterparty risk relating to derivatives products.

Power Financial manages credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum ratings and concentration limits.

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and banks in jurisdictions where the Corporation operates as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives can be also used mainly to mitigate exposure to foreign exchange and market risk related to certain stock-based compensation arrangements. Power Financial regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

The Corporation's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2018.

MARKET RISK

Market risk is the risk that the market value or future cash flows of an investment will fluctuate as a result of changes in market factors. Market factors include foreign exchange risk, interest rate risk and equity risk.

Foreign Exchange Risk

Foreign exchange risk relates to the Corporation operating in different currencies and converting non-Canadian investments and earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

In its ongoing operations, the Corporation may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, the Corporation may from time to time enter into currency-hedging transactions with highly rated financial institutions. At December 31, 2019, approximately 2% of the $1,021 million of Power Financial's cash and cash equivalents and fixed income securities were denominated in U.S. dollars.

Power Financial's debentures do not have exposure to currency risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate following changes in interest rates.

At December 31, 2019, the sensitivity of the financial instruments portfolio to a change of 1% in interest rate was $2 million over a portfolio of $200 million. The majority of the portfolio matures in the next two years.

Power Financial's financial instruments do not have significant exposure to interest rate risk.

Equity Risk

Equity risk is the potential loss associated with the sensitivity of the market price of a financial instrument arising from volatility in equity markets.

Most of Power Financial's other investments are classified as available for sale. Unrealized gains and losses on these investments are recorded in other comprehensive income until realized. Other investments are reviewed periodically to determine whether there is objective evidence of an impairment in value. At December 31, 2019, the impact of a 5% decrease in the value of other investments would have been a $4 million unrealized loss recorded in other comprehensive income.

The market price of the equity securities of Power Financial's subsidiaries and investments may be volatile and subject to numerous factors beyond such subsidiaries' control. At times, financial markets have experienced significant price and volume fluctuations that have affected the market price of the equity securities of the subsidiaries and investments, and that are often unrelated to the operating performance, underlying asset values or prospects of such companies. Volatility in the market price of the equity securities of subsidiaries and investments may have an impact on the net asset value reported by the Corporation.

Power Financial's management of financial instruments risk has not changed materially since December 31, 2018. For a further discussion of the Corporation's risk management, please refer to Note 22 to the Corporation's 2019 Consolidated Financial Statements. Parts C and D of this MD&A describe respectively Lifeco's and IGM's management of financial instruments risk.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from people, inadequate or failed internal processes and technologies, or external events. It includes the following type of risks: internal and external frauds, inadequate human resources practices, execution and processing errors, model risk, suppliers and third-party risk, business disruptions, cybersecurity, legal risk and regulatory compliance risk. Although operational risk cannot be eliminated entirely, the Corporation's risk management processes are designed to manage these risks in a thorough and diligent manner.

The Corporation manages operational risk by adopting and applying a series of corporate governance policies (or being covered by Power Corporation's corporate governance policies), procedures and practices such as human resource and compensation practice policies, a clawback policy for all officers, a code of business conduct and ethics for employees, a third-party code of conduct, business continuity procedures, related party transactions review and other corporate governance guidelines. The Corporation also has established a series of controls for financial reporting and disclosure purposes, and such controls, which are tested on a regular basis, can contribute to identifying and mitigating operational risks.

Cybersecurity risk

The Corporation is exposed to risks relating to cybersecurity, in particular cyber threats, which include cyber-attacks such as, but not limited to, hacking, computer viruses, unauthorized access to confidential, proprietary or sensitive information or other breaches of network or Information Technology (IT) security. The Corporation continues to monitor and enhance its defences and procedures to prevent, detect, respond to and manage cybersecurity threats, which are constantly evolving. Consequently, the Corporation's IT defences are continuously monitored and adapted to both prevent and detect cyber-attacks, and then recover and remediate. Disruption to information systems or breaches of security could result in a negative impact on the Corporation's financial results or result in reputational damage.

Regulatory compliance risk

Regulatory compliance risk is the risk of the Corporation or its employees failing to comply with the regulatory requirements in effect where the Corporation does business, both in Canada and internationally. There are many laws, governmental rules and regulations, including financial reporting and disclosure rules that apply to the Corporation. Interpretation of these laws, rules and regulations by the Corporation, governmental agencies or the courts could result in situations of regulatory non-compliance and could adversely affect the Corporation's reputation and result in penalties, fines and sanctions or increased oversight by regulators. The Corporation, in addition to complying with these laws, rules and regulations, must also monitor them closely so that changes therein are taken into account in the management of its activities.

The Corporation ensures that the tax implications of all of its strategic decisions comply with its legal and tax reporting obligations as well as anticipate potential changes in the current legal framework to avoid any risk of non-compliance that could have adverse impacts.

REPUTATION RISK

Reputation risk is the risk that an activity undertaken by the Corporation would be judged negatively by its stakeholders or the public, whether that judgment is with or without basis, thereby impairing its image and resulting potentially in the loss of business, limited financing capacity, legal action or increased regulatory oversight. Reputation risk can arise from a number of events and is generally related to a deficiency in managing another risk. For example, non-compliance with laws and regulations as well as deficiencies in financial reporting and disclosures can have a significant reputational impact on the organization.

The Corporation adheres to a Code of Business Conduct and Ethics (the Code of Conduct, which includes guidelines on conflicts of interest) as well as a Third Party Code of Conduct that govern the conduct of the Corporation's Directors, officers, employees, advisors, consultants and suppliers. The Board of Directors of Power Corporation is responsible for overseeing compliance with the Code of Conduct through Power Corporation's General Counsel and Secretary, who monitors compliance with the Code of Conduct. Directors and employees of the Corporation are required to confirm annually, and officers of the Corporation are required to confirm quarterly, their understanding of, and agreement to comply with, the Code of Conduct.

EMERGING RISKS

An emerging risk is a risk not well understood at the current time and for which the impacts on strategy and financial results are difficult to assess or are in the process of being assessed.

Monitoring emerging risks is an important component of risk management. Power Financial is actively monitoring emerging risks through:

- Review and analysis at the boards and committees of its operating companies around the world where local executives describe the emerging risks in their respective environments.
- The Corporation's executive officers act as the Corporation's risk management committee. They meet regularly to identify, analyze and review the Corporation's risks and to implement strategies to mitigate these risks.

COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

Financial Instruments and Other Instruments

FAIR VALUE MEASUREMENT

Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values represent management's estimates and are generally calculated using market information and at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

The Corporation's assets and liabilities recorded at fair value and those for which fair value is disclosed have been categorized based upon the following fair value hierarchy:

- Level 1 inputs utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.
- Level 2 inputs utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability.

The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input that is significant to the fair value measurement. The Corporation and its subsidiaries' assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability.

The following table presents the carrying amounts and fair value of the Corporation and its subsidiaries' assets and liabilities recorded or disclosed at fair value. The table distinguishes between assets and liabilities recorded at fair value on a recurring basis and those for which fair value is disclosed. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

At December 31	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	85,845	85,845	91,815	91,815
Available for sale	11,910	11,910	13,532	13,532
Mortgage and other loans				
Fair value through profit or loss	1,314	1,314	817	817
Shares				
Fair value through profit or loss	9,925	9,925	8,794	8,794
Available for sale	113	113	213	213
Investment properties	5,887	5,887	5,218	5,218
Funds held by ceding insurers	6,661	6,661	7,155	7,155
Derivative instruments	472	472	433	433
Reinsurance assets	127	127	–	–
Assets held for sale [1]	–	–	782	782
Other assets	1,490	1,490	927	927
	123,744	123,744	129,686	129,686
Assets disclosed at fair value				
Bonds				
Loans and receivables	17,372	19,344	19,722	20,619
Mortgage and other loans				
Loans and receivables	30,131	31,085	31,900	32,349
Shares				
Available for sale [2]	150	150	239	239
Funds held by ceding insurers	80	80	91	91
	47,733	50,659	51,952	53,298
Total	171,477	174,403	181,638	182,984
Liabilities				
Liabilities recorded at fair value				
Investment contract liabilities	1,656	1,656	1,711	1,711
Investment contract liabilities held for sale	–	–	27	27
Derivative instruments	1,398	1,398	1,593	1,593
Other liabilities	411	411	162	162
	3,465	3,465	3,493	3,493
Liabilities disclosed at fair value				
Obligations to securitization entities	6,914	6,997	7,370	7,437
Debentures and other debt instruments	8,250	9,565	8,492	9,224
Deposits and certificates	886	887	622	622
	16,050	17,449	16,484	17,283
Total	19,515	20,914	19,977	20,776

[1] Excludes cash and cash equivalents and loans to policyholders as the carrying value is a reasonable approximation of the fair value.

[2] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are recorded at cost.

See Note 27 to the Corporation's 2019 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement at December 31, 2019.

DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the Corporation and by senior management of its subsidiaries. The Corporation and its subsidiaries have each established operating policies, guidelines and procedures relating to the use of derivative financial instruments, which in particular focus on:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring the hedging relationships.

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the twelve-month period ended December 31, 2019. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	December 31, 2019			December 31, 2018		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Financial	23	6	6	20	–	(2)
Lifeco	21,634	451	(930)	19,614	417	(1,145)
IGM	2,608	15	(2)	2,883	16	(13)
Other subsidiaries	8	–	–	8	–	–
	24,250	466	(932)	22,505	433	(1,158)
	24,273	472	(926)	22,525	433	(1,160)

During the twelve-month period ended December 31, 2019, there was an increase of $1.7 billion in the notional amount of derivatives outstanding, primarily due to an increase in forward-settling mortgage-backed security transactions ("to-be-announced securities") and regular hedging activities. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) increased to $472 million at December 31, 2019 from $433 million at December 31, 2018. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

Parts C and D of this MD&A provide information on the types of derivative financial instruments used by Lifeco and IGM, respectively.

See Note 26 to the Corporation's 2019 Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

GUARANTEES

In the normal course of their operations, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See also Part C of this MD&A and Note 32 to the Corporation's 2019 Consolidated Financial Statements.

Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation. See also Parts C and D of this MD&A and Note 31 to the Corporation's 2019 Consolidated Financial Statements.

Commitments and Contractual Obligations

	Payments due by period				
	Less than 1 year	1–5 years	More than 5 years	Undefined	Total
Power Financial [1]	16	–	254	–	270
Lifeco	2,423	1,126	4,875	–	8,424
IGM	2,116	5,489	2,134	–	9,739
Other subsidiaries and consolidation entries	292	6	(99)	43	242
Total	4,847	6,621	7,164	43	18,675
Debentures and other debt instruments [2]	937	730	6,623	–	8,290
Obligations to securitization entities	1,474	5,431	9	–	6,914
Deposits and certificates	881	4	1	–	886
Lease obligations [3]	111	312	447	–	870
Purchase obligations [4]	125	108	84	–	317
Pension contributions [5]	324	–	–	–	324
Contractual commitments [6]	995	36	–	43	1,074
Total	4,847	6,621	7,164	43	18,675

[1] Includes debentures of the Corporation of $250 million.

[2] Please refer to Note 15 to the Corporation's 2019 Consolidated Financial Statements for further information.

[3] Please refer to Note 16 to the Corporation's 2019 Consolidated Financial Statements for further information.

[4] Purchase obligations are commitments of Lifeco to acquire goods and services, primarily related to information services.

[5] Pension contributions include expected contributions to defined benefit and defined contribution pension plans as well as post-employment benefits and are subject to change, as contribution decisions are affected by many factors, including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond one year are excluded due to variability on the assumptions required to project the timing of future contributions.

[6] Represents $1,042 million of commitments by Lifeco. These contractual commitments are essentially commitments to investment transactions made in the normal course of operations, in accordance with Lifeco's policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.

Income Taxes (Non-Consolidated Basis)

The Corporation had, at December 31, 2019, non-capital losses of $300 million ($293 million for which the benefits have not been recognized) available to reduce future taxable income (including capital gains). These losses expire from 2028 to 2039.

The Corporation had, at December 31, 2019, capital losses of $84 million (none of which have been recognized) that can be used indefinitely to offset capital gains.

In addition, at December 31, 2019, deductible temporary differences for which the benefits have not been recognized were $210 million.

See also "Transactions with Related Parties" below.

Transactions with Related Parties

During 2019, Power Financial had a Related Party and Conduct Review Committee composed entirely of Directors who are independent of management and independent of the Corporation's controlling shareholder. The mandate of this Committee was to review proposed transactions with related parties of the Corporation, including its controlling shareholder, and to approve only those transactions that it deemed appropriate and that were done at market terms and conditions. Subsequent to the Reorganization, the members of the Audit Committee will review and consider the approval of related party transactions.

In the normal course of business, Power Financial and its subsidiaries enter into various transactions which include capital commitments to investment funds, performance and base management fees paid to subsidiaries of the group and loans to employees. Such transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

In the normal course of business, Great-West Life and Putnam enter into various transactions with related companies which include providing group insurance benefits and subadvisory services, respectively, to other companies within the Power Financial group of companies. Such transactions are at market terms and conditions. These transactions are reviewed by the appropriate related party and conduct review committee.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Financial, and Lifeco and its subsidiaries. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

IGM enters into transactions with subsidiaries of Lifeco. These transactions are in the normal course of operations and include (i) providing certain administrative services, (ii) distributing insurance products and (iii) the sale of residential mortgages to Great-West Life and London Life. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

In October 2017, IGM obtained advance tax rulings which permitted tax loss consolidation transactions with a subsidiary of Power Corporation, whereby shares of a subsidiary that has generated tax losses may be acquired by IGM in each year up to and including 2020. The acquisitions are expected to close in the fourth quarter of each year. IGM recognizes the benefit of the tax losses realized throughout the year the shares in the subsidiary are acquired.

On April 17, 2019, Power Financial participated in the Lifeco SIB and Power Corporation participated in the PFC SIB. These transactions were at market terms and conditions. Refer to the sections "Overview – 2019 Highlights" and "Equity" for more details.

On February 13, 2020, the Corporation and Power Corporation completed the Reorganization. Refer to the section "Overview – 2019 Highlights" for more details.

See Note 30 to the Corporation's 2019 Consolidated Financial Statements for additional information.

Summary of Critical Accounting Estimates and Judgments

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries – Lifeco and IGM – are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated or accounted for using the equity method, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the notes to the Corporation's 2019 Consolidated Financial Statements.

CONSOLIDATION

Management of the Corporation consolidates all subsidiaries and entities in which it has determined that the Corporation has control. Control is evaluated according to the ability of the Corporation to direct the relevant activities of the subsidiaries or other structured entities in order to derive variable returns. Management of the Corporation and of each of its subsidiaries exercise judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Corporation or its subsidiaries have the ability to exercise their power to affect variable returns.

JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without having control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Management of the Corporation and of each of its subsidiaries exercise judgment in determining whether joint control or significant influence exists.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Measurement

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiaries are responsible for determining the amount of the liabilities in order to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality and morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

Additional details regarding these estimates can be found in Note 13 to the Corporation's 2019 Consolidated Financial Statements. See also Part C of this MD&A.

FAIR VALUE MEASUREMENT

The carrying values of financial assets reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation and its subsidiaries rely upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance contract liabilities are largely offset by corresponding changes in the fair value of these liabilities, except when the bond has been deemed impaired.

The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following is a description of the methodologies used to determine fair value.

a) *Bonds and mortgage and other loans at fair value through profit or loss and available for sale*

Fair values of bonds and mortgage and other loans recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds and mortgage and other loans at fair value. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate the fair value of bonds and mortgage and other loans not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodologies, discounted cash flow analyses and/or internal valuation models. These methodologies consider such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as yield curves, credit curves, prepayment rates and other relevant factors. For bonds and mortgage and other loans that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

b) *Shares at fair value through profit or loss and available for sale*

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movements relative to the market and utilization of information provided by the underlying investment manager. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure shares at fair value.

c) *Equity-release mortgages at fair value through profit or loss*

There are no market observable prices for equity-release mortgages; an internal valuation model is used which is based on discounting expected future cash flows and considering the embedded no-negative-equity guarantee. Inputs to the model include market observable inputs such as benchmark yields and risk-adjusted spreads. Non-market observable inputs include property growth and volatility rates, expected rates of voluntary redemptions, death, moving to long-term care and interest cessation assumptions and the value of the no-negative-equity guarantee.

d) *Bonds and mortgage and other loans classified as loans and receivables*

The fair values disclosed for bonds and mortgage and other loans, classified as loans and receivables, are determined by discounting expected future cash flows using current market rates for similar instruments. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

e) *Investment properties*

Fair values for investment properties are determined using independent qualified appraisal services and include adjustments by Lifeco management for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment properties requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

IMPAIRMENT OF INVESTMENTS

Investments are reviewed on an individual basis at the end of each reporting period to determine whether there is any objective evidence of impairment. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired bonds and mortgage and other loans classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. Where available-for-sale bonds are determined to be impaired, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, interest is no longer accrued on impaired bonds and mortgage and other loans and previous interest accruals are reversed in net investment income.

Impairment losses on available-for-sale shares are recorded in net investment income if the loss is significant or prolonged. Subsequent losses are recorded directly in net investment income.

GOODWILL AND INDEFINITE LIFE INTANGIBLES IMPAIRMENT TESTING

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

Goodwill and indefinite life intangible assets have been allocated to cash generating units or to groups of cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of the CGU to the recoverable amount of the CGU to which the goodwill and indefinite life intangible assets have been allocated.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of disposal or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors, unfunded supplementary employee retirement plans (SERP) for certain employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. Expenses for defined benefit plans are actuarially determined using the projected unit credit method prorated on service based upon management of the Corporation and of its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The Corporation and its subsidiaries' accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

- The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined by reference to market yields on high-quality corporate bonds.
- If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.
- Net interest costs, current service costs, past service costs and curtailment and settlement gains or losses are included in operating and administrative expenses.
- Remeasurements represent actuarial gains and losses, and the actual return on plan assets, less interest calculated at the discount rate and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not subsequently reclassified to net earnings.
- The accrued benefit asset (liability) represents the plan surplus (deficit).
- Contributions to the defined contribution plans are expensed as incurred.

INCOME TAXES

Current income tax

Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current tax liabilities are offset if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Deferred income tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income and on unused tax attributes, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax attributes can be utilized.

Recognition of deferred tax assets is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets. The Corporation and its subsidiaries' financial planning process provides a significant basis for the measurement of deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, jointly controlled corporations and associates, except where the group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Changes in Accounting Policies

There were no changes to the Corporation's accounting policies from those reported at December 31, 2018, except as described below.

ADOPTION OF IFRS 16 – *LEASES* (IFRS 16)

Effective January 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, *Leases* (IAS 17) and related interpretations. The standard prescribes new guidance for identifying a lease as well as the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires a lessee to recognize a right-of-use asset representing its right to use the leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. The distinction between operating and financing leases no longer applies, however an optional exemption is available for short-term and low-value leases.

Impact of transition to IFRS 16

The Corporation has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Corporation elected to measure right-of-use assets on a lease-by-lease basis at either i) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized on the balance sheets immediately before the date of initial application; or ii) at its carrying amount, as if IFRS 16 had been applied since the commencement date but discounted using the Corporation's incremental borrowing rate at January 1, 2019. When measuring lease liabilities, the Corporation and its subsidiaries discounted lease payments using their respective incremental borrowing rates at January 1, 2019. The weighted-average incremental borrowing rate was 3.95% at January 1, 2019.

On transition, the Corporation and its subsidiaries elected to apply practical expedients including: i) to not recognize right-of-use assets and lease liabilities for leases for which the remaining lease terms end within twelve months of the date of transition; and ii) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

Impact on the balance sheet as at January 1, 2019:

	December 31, 2018 (as previously reported)	Impact of IFRS 16	January 1, 2019 (restated)
Assets			
Investment properties	5,218	29	5,247
Owner-occupied properties and capital assets	1,331	560	1,891
		589	
Liabilities and shareholders' equity			
Other liabilities [1]	10,960	597	11,557
Deferred tax liabilities	1,517	(2)	1,515
Retained earnings	15,967	(3)	15,964
Non-controlling interests	13,369	(3)	13,366
		589	

[1] Accrued lease payments of $64 million within other liabilities on the balance sheet at December 31, 2018 were reclassified to decrease right-of-use assets.

The application of IFRS 16 did not have a material impact on the statement of earnings or the statement of cash flows for the year ended December 31, 2019, except for the classification of lease payments as financing activities instead of operating activities. The adoption of IFRS 16 did not have an impact on net cash flows.

ADOPTION OF IFRIC 23 – *UNCERTAINTY OVER INCOME TAX TREATMENTS* (IFRIC 23)

Effective January 1, 2019, the Corporation adopted IFRIC 23 which clarifies the application of the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under IFRIC 23, a provision for tax uncertainties which meets the probable threshold for recognition is measured based on the amount most likely to occur. The provision for tax uncertainties is classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. The application of the interpretation of the standard resulted in a decrease of $109 million to Lifeco's retained earnings. The Corporation's share of this impact is $77 million.

Future Accounting Changes

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

New standard	Summary of future changes
IFRS 17 – Insurance Contracts (IFRS 17)	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard by one year to January 1, 2022. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period on the exposure draft, on March 17, 2020, the IASB approved the deferral of the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. In addition, the IASB extended to January 1, 2023 the exemption for insurers to apply the financial instruments standard, IFRS 9 - *Financial Instruments*, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB has also confirmed certain amendments proposed in the exposure draft – namely the amendment on the expected recovery of insurance acquisition cash flows – and has also agreed to extend the scope of the amendment related to the recovery of losses on reinsurance contracts to apply to all reinsurance held contracts. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework and project plan, for which substantial resources are being dedicated. Lifeco has assembled a project team that is working on the implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. These groups are also monitoring developments from the IASB, and various industry groups that Lifeco has representation on. Lifeco has made progress in implementing its project plan, with key policy decisions well-advanced as well as progression on the implementation of the technology solution. Lifeco continues to evaluate the readiness of technology vendors and their ability to deliver for IFRS 17 implementation. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows: the current estimates of amounts that a company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin: the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the Canadian Asset Liability Method, where the discount rate was based on the yield curves of the assets supporting those liabilities. The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. In 2019, Lifeco recognized approximately $108 million of new business losses (losses of approximately $195 million in 2018). IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, Lifeco expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how the financial performance is reported in the statements of earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. Lifeco is also actively monitoring potential impacts on regulatory capital and its associated ratios and disclosures. Lifeco continues to assess all these impacts through its global implementation plan.

New standard	Summary of future changes
Current implication of IFRS 9 – Financial Instruments (IFRS 9)	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The effective date for IFRS 9 has been deferred to align with the effective date for IFRS 17 of January 1, 2023. The standard provides changes to financial instruments accounting for the following: ▪ Classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; ▪ Impairment based on an expected loss model; and ▪ Hedge accounting that incorporates the risk management practices of an entity. In September 2016, the IASB issued an amendment to IFRS 4, *Insurance Contracts* (IFRS 4). The amendment "Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: ▪ *Deferral Approach:* provides the option to defer implementation of IFRS 9 until the proposed effective date of the new insurance contract standard; or ▪ *Overlay Approach:* provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Corporation qualifies for the amendment and is applying the deferral approach to allow the adoption of both IFRS 9 and IFRS 17, simultaneously. The disclosure for the measurement and classification of the Corporation's portfolio investments provides most of the information required by IFRS 9. The Corporation and Lifeco continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. Pargesa (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted although not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to Pargesa's results.
IFRS 3 – Business Combinations (IFRS 3)	In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. The amendments will be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.
IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)	In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments are to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2020.
IFRS 9 – Financial Instruments (IFRS 9) IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39) and IFRS 7 – Financial Instruments: Disclosures (IFRS 7)	In September 2019, the IASB issued amendments to IFRS 9, *Financial Instruments,* IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective for periods beginning on or after January 1, 2020. Although adoption of these amendments will not have a significant impact on the Corporation's consolidated financial statements, additional disclosures will be required.

Disclosure Controls and Procedures

Based on their evaluations at December 31, 2019, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective at December 31, 2019.

Internal Control over Financial Reporting

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with IFRS. The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's internal control over financial reporting at December 31, 2019, based on the Internal Control – Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal control over financial reporting was effective at December 31, 2019.

There have been no changes in the Corporation's internal control over financial reporting during the three-month period ended December 31, 2019 which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Selected Annual Information

For the years ended December 31	2019	2018	2017
Total revenues	47,802	47,025	49,987
Assets under management [in billions]	934	854	848
Assets under administration [in billions]	1,816	1,565	1,521
Net earnings (attributable to common shareholders)	1,964	2,245	1,717
per share – basic	2.89	3.15	2.41
per share – diluted	2.89	3.14	2.40
Adjusted net earnings (attributable to common shareholders) [1]	2,306	2,282	2,135
per share – basic	3.40	3.20	2.99
Consolidated assets	471,372	447,055	440,224
Total financial liabilities	24,141	24,550	23,522
Debentures and other debt instruments	8,250	8,492	8,128
Shareholders' equity	20,815	21,580	20,513
Book value per common share	27.08	26.26	24.77
Number of common shares outstanding [millions]	664.1	714.1	713.9
Dividends per share [declared]			
Common shares	1.8220	1.7320	1.6500
First preferred shares			
Series A [2]	0.6913	0.6301	0.5067
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	1.3125
Series F	1.4750	1.4750	1.4750
Series H	1.4375	1.4375	1.4375
Series I	1.5000	1.5000	1.5000
Series K	1.2375	1.2375	1.2375
Series L	1.2750	1.2750	1.2750
Series O	1.4500	1.4500	1.4500
Series P	0.5765	0.5765	0.5765
Series Q [3]	0.8125	0.7091	0.5673
Series R	1.3750	1.3750	1.3750
Series S	1.2000	1.2000	1.2000
Series T [4]	1.0537	1.0500	1.0500
Series V	1.2875	1.2875	0.8792

[1] Adjusted net earnings and adjusted net earnings per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Non-IFRS Financial Measures and Presentation" section in this MD&A.

[2] The Series A First Preferred Shares are entitled to a quarterly cumulative dividend at a floating rate equal to one quarter of 70% of the average prime rates quoted by two major Canadian chartered banks.

[3] The Series Q First Preferred Shares are entitled to an annual non-cumulative dividend, payable quarterly at a floating rate equal to the 3-month Government of Canada Treasury Bill rate plus 1.60%.

[4] On January 31, 2019, the Series T were subject to a dividend rate reset for the five-year period from and including January 31, 2019. The dividend rate was reset to 4.215% or $0.263438 per share in cash dividends payable quarterly.

Summary of Quarterly Results

				2019				2018
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues [1]	11,485	15,158	3,511	17,648	12,438	12,787	11,360	10,440
Net earnings (attributable to common shareholders)	401	584	443	536	478	523	658	586
per share – basic [2]	0.60	0.88	0.66	0.75	0.67	0.74	0.92	0.82
per share – diluted [2]	0.60	0.88	0.66	0.75	0.67	0.73	0.92	0.82
Adjusted net earnings (attributable to common shareholders) [3]	591	590	589	536	460	578	658	586
per share – basic [2, 3]	0.89	0.89	0.88	0.75	0.65	0.81	0.92	0.82
Other items [3, 4]	(190)	(6)	(146)	–	18	(55)	–	–
per share – basic [3]	(0.29)	(0.01)	(0.22)	–	0.02	(0.07)	–	–

[1] The decrease in revenues in the second quarter of 2019 is due to the impact of Lifeco's sale, via indemnity reinsurance, of its U.S. individual life insurance and annuity business to Protective Life.

[2] In the second quarter of 2019, pursuant to the PFC SIB, Power Financial repurchased approximately 7% of its issued and outstanding common shares.

[3] Adjusted net earnings and adjusted net earnings per share attributable to common shareholders, and other items and other items per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Non-IFRS Financial Measures and Presentation" section in this MD&A.

[4] The Corporation's share of Lifeco, IGM and Pargesa's Other items is as follows:

				2019				2018
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lifeco								
Net charge on the sale of U.S. individual life insurance and annuity business	–	–	(134)	–	–	–	–	–
Net charge on the revaluation of a deferred tax asset	(133)	–	–	–	–	–	–	–
Restructuring charges	(24)	–	–	–	–	(38)	–	–
Net gain on the Scottish Friendly transaction	6	–	–	–	–	–	–	–
Share of IGM's other items	–	–	–	–	–	(1)	–	–
IGM								
Restructuring and other charges	–	–	–	–	–	(10)	–	–
Premium paid on early redemption of debentures	–	–	–	–	–	(5)	–	–
Share of Lifeco's other items	(6)	–	(5)	–	–	(1)	–	–
Pargesa								
Imerys – Disposal of roofing activity	–	–	–	–	86	–	–	–
Imerys – Impairments, restructuring charges and other	(11)	–	(7)	–	(68)	–	–	–
Parques and other charges	(13)	(6)	–	–	–	–	–	–
Corporate operations								
Reorganization charges	(9)	–	–	–	–	–	–	–
	(190)	(6)	(146)	–	18	(55)	–	–

Consolidated Balance Sheets

[in millions of Canadian dollars]	December 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents [Note 5]	6,272	5,624
Investments [Note 6]		
Bonds	115,127	125,069
Mortgage and other loans	31,445	32,717
Shares	10,188	9,246
Investment properties	5,887	5,218
Loans to policyholders	8,601	8,929
	171,248	181,179
Assets held for sale [Note 4]	–	897
Funds held by ceding insurers [Note 7]	8,714	9,251
Reinsurance assets [Note 13]	20,707	6,126
Derivative financial instruments [Note 26]	472	433
Investments in jointly controlled corporations and associates [Note 8]	4,902	4,009
Owner-occupied properties and capital assets [Note 9]	1,885	1,331
Other assets [Note 10]	10,293	9,118
Deferred tax assets [Note 17]	775	1,066
Intangible assets [Note 11]	5,172	5,229
Goodwill [Note 11]	9,910	9,946
Investments on account of segregated fund policyholders [Note 12]	231,022	209,527
Investments on account of segregated fund policyholders held for sale [Note 4]	–	3,319
Total assets	471,372	447,055
Liabilities		
Insurance contract liabilities [Note 13]	174,521	166,720
Investment contract liabilities [Note 13]	1,656	1,711
Liabilities held for sale [Note 4]	–	897
Obligations to securitization entities [Note 14]	6,914	7,370
Debentures and other debt instruments [Note 15]	8,250	8,492
Derivative financial instruments [Note 26]	1,398	1,593
Other liabilities [Note 16]	12,470	10,960
Deferred tax liabilities [Note 17]	1,429	1,517
Insurance and investment contracts on account of segregated fund policyholders [Note 12]	231,022	209,527
Insurance and investment contracts on account of segregated fund policyholders held for sale [Note 4]	–	3,319
Total liabilities	437,660	412,106
Equity		
Stated capital [Note 18]		
Perpetual preferred shares	2,830	2,830
Common shares	1,292	833
Retained earnings	14,608	15,967
Reserves	2,085	1,950
Total shareholders' equity	20,815	21,580
Non-controlling interests [Note 20]	12,897	13,369
Total equity	33,712	34,949
Total liabilities and equity	471,372	447,055

Approved by the Board of Directors

Signed,
Siim A. Vanaselja
Director

Signed,
R. Jeffrey Orr
Director

Consolidated Statements of Earnings

For the years ended December 31 [in millions of Canadian dollars, except per share amounts]	2019	2018
Revenues		
Premium income		
Gross premiums written [Note 13]	43,245	39,963
Ceded premiums	(18,756)	(4,523)
Total net premiums	24,489	35,440
Net investment income [Note 6]		
Regular net investment income	6,260	6,426
Change in fair value through profit or loss	6,987	(3,604)
Net investment income	13,247	2,822
Fee income	10,066	8,763
Total revenues	47,802	47,025
Expenses		
Policyholder benefits		
Gross [Note 13]	37,769	32,357
Ceded	(2,916)	(2,445)
Total net policyholder benefits	34,853	29,912
Changes in insurance and investment contract liabilities		
Gross	10,155	441
Ceded	(13,479)	61
Total net changes in insurance and investment contract liabilities	(3,324)	502
Policyholder dividends and experience refunds	1,562	1,654
Total paid or credited to policyholders	33,091	32,068
Commissions	3,480	3,512
Operating and administrative expenses [Note 23]	7,237	6,997
Financing charges [Note 24]	435	360
Total expenses	44,243	42,937
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,559	4,088
Share of earnings of investments in jointly controlled corporations and associates [Note 8]	211	94
Earnings before income taxes	3,770	4,182
Income taxes [Note 17]	601	602
Net earnings	3,169	3,580
Attributable to		
Non-controlling interests [Note 20]	1,066	1,197
Perpetual preferred shareholders	139	138
Common shareholders	1,964	2,245
	3,169	3,580
Earnings per common share [Note 29]		
Net earnings attributable to common shareholders		
– Basic	2.89	3.15
– Diluted	2.89	3.14

Consolidated Statements of Comprehensive Income

For the years ended December 31 [in millions of Canadian dollars]	2019	2018
Net earnings	3,169	3,580
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings		
Net unrealized gains (losses) on available-for-sale investments		
Unrealized gains (losses)	236	(78)
Income tax (expense) benefit	(37)	19
Realized (gains) losses transferred to net earnings	(96)	6
Income tax expense (benefit)	9	(1)
	112	(54)
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	9	14
Income tax (expense) benefit	(1)	(2)
Realized (gains) losses transferred to net earnings	–	(69)
Income tax expense (benefit)	–	17
	8	(40)
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation	(564)	779
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	100	(50)
Income tax (expense) benefit	(14)	6
	(478)	735
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	504	(20)
Income tax (expense) benefit	5	(2)
	509	(22)
Total – items that may be reclassified	151	619
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on defined benefit plans [Note 25]	(257)	23
Income tax (expense) benefit	54	1
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	(6)	2
Total – items that will not be reclassified	(209)	26
Other comprehensive income (loss)	(58)	645
Comprehensive income	3,111	4,225
Attributable to		
Non-controlling interests	902	1,371
Perpetual preferred shareholders	139	138
Common shareholders	2,070	2,716
	3,111	4,225

Consolidated Statements of Changes in Equity

For the year ended December 31, 2019 [in millions of Canadian dollars]	Stated capital: Perpetual preferred shares	Stated capital: Common shares	Retained earnings	Reserves: Share-based compensation	Reserves: Other comprehensive income [Note 28]	Reserves: Total	Non-controlling interests	Total equity
Balance, beginning of year								
As previously reported	2,830	833	15,967	162	1,788	1,950	13,369	34,949
Change in accounting policies [Note 2]								
Impact of IFRS 16	–	–	(3)	–	–	–	(3)	(6)
Impact of IFRIC 23	–	–	(77)	–	–	–	(32)	(109)
Restated balance, beginning of year	2,830	833	15,887	162	1,788	1,950	13,334	34,834
Net earnings	–	–	2,103	–	–	–	1,066	3,169
Other comprehensive income (loss)	–	–	–	–	106	106	(164)	(58)
Comprehensive income	–	–	2,103	–	106	106	902	3,111
Substantial issuer bid on common shares [Note 18]	–	459	(2,109)	–	–	–	–	(1,650)
Dividends to shareholders								
Perpetual preferred shares	–	–	(139)	–	–	–	–	(139)
Common shares	–	–	(1,233)	–	–	–	–	(1,233)
Dividends to non-controlling interests	–	–	–	–	–	–	(770)	(770)
Share-based compensation [Note 19]	–	–	–	40	–	40	15	55
Stock options exercised	–	–	–	(25)	–	(25)	25	–
Effects of changes in capital and ownership of subsidiaries, and other [1]	–	–	99	24	(10)	14	(609)	(496)
Balance, end of year	2,830	1,292	14,608	201	1,884	2,085	12,897	33,712

[1] Effects of changes in capital and ownership of subsidiaries relate to the impact of the purchase for cancellation of common shares by Lifeco under its substantial issuer bid and the issuance and the repurchase of common and preferred shares by subsidiaries (Note 20).

For the year ended December 31, 2018 [in millions of Canadian dollars]	Stated capital: Perpetual preferred shares	Stated capital: Common shares	Retained earnings	Reserves: Share-based compensation	Reserves: Other comprehensive income [Note 28]	Reserves: Total	Non-controlling interests	Total equity
Balance, beginning of year	2,830	826	15,021	159	1,317	1,476	12,814	32,967
Net earnings	–	–	2,383	–	–	–	1,197	3,580
Other comprehensive income	–	–	–	–	471	471	174	645
Comprehensive income	–	–	2,383	–	471	471	1,371	4,225
Dividends to shareholders								
Perpetual preferred shares	–	–	(138)	–	–	–	–	(138)
Common shares	–	–	(1,237)	–	–	–	–	(1,237)
Dividends to non-controlling interests	–	–	–	–	–	–	(764)	(764)
Share-based compensation [Note 19]	–	–	–	34	–	34	13	47
Stock options exercised	–	7	–	(31)	–	(31)	31	7
Effects of changes in capital and ownership of subsidiaries, and other	–	–	(62)	–	–	–	(96)	(158)
Balance, end of year	2,830	833	15,967	162	1,788	1,950	13,369	34,949

Consolidated Statements of Cash Flows

For the years ended December 31 [in millions of Canadian dollars]	2019	2018
Operating activities		
Earnings before income taxes	3,770	4,182
Income tax paid, net of refunds	(474)	(562)
Adjusting items		
Change in insurance and investment contract liabilities	10,412	(379)
Change in funds held by ceding insurers	570	663
Change in reinsurance assets	(900)	51
Change in fair value through profit or loss	(6,987)	3,604
Other	317	(430)
	6,708	7,129
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	(774)	(764)
Perpetual preferred shares	(139)	(138)
Common shares	(1,239)	(1,222)
	(2,152)	(2,124)
Issue of common shares by the Corporation [Note 18]	–	7
Issue of common shares and limited-life fund units by subsidiaries	194	61
Repurchase of common shares for cancellation under substantial issuer bid [Note 18]	(1,650)	–
Repurchase of common shares by subsidiaries	(434)	(74)
Redemption of preferred shares by subsidiaries	(150)	–
Issue of debentures and senior notes [Note 15]	250	1,712
Redemption of debentures [Note 15]	(232)	(1,621)
Increase in other debt instruments [Note 15]	1	38
Decrease in other debt instruments [Note 15]	(39)	(1)
Repayment of lease liabilities [Note 16]	(73)	–
Increase in obligations to securitization entities	1,456	1,772
Repayments of obligations to securitization entities and other	(2,043)	(2,048)
	(4,872)	(2,278)
Investment activities		
Bond sales and maturities	25,304	25,218
Mortgage and other loan repayments	4,744	4,704
Sale of shares	2,910	3,033
Sale of investment properties	5	63
Change in loans to policyholders	16	(208)
Proceeds from assets held for sale [Note 4]	–	169
Business acquisitions, net of cash and cash equivalents acquired [Note 3]	(12)	(279)
Cash and cash equivalents related to transfer of business [Note 4]	(4)	–
Cash and cash equivalents classified as held for sale [Note 4]	–	(112)
Investment in bonds	(25,128)	(26,670)
Investment in mortgage and other loans	(5,498)	(5,994)
Investment in shares	(2,544)	(4,209)
Investments in jointly controlled corporations and associates [Note 8]	(123)	(15)
Investment in investment properties and other	(728)	(414)
	(1,058)	(4,714)
Effect of changes in exchange rates on cash and cash equivalents	(130)	166
Increase in cash and cash equivalents	648	303
Cash and cash equivalents, beginning of year	5,624	5,321
Cash and cash equivalents, end of year	6,272	5,624
Net cash from operating activities includes		
Interest and dividends received	5,729	5,920
Interest paid	592	591

Notes to the Consolidated Financial Statements

(ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.)

Note 1	Corporate Information	66
Note 2	Basis of Presentation and Summary of Significant Accounting Policies	67
Note 3	Business Acquisitions and Other Transactions	85
Note 4	Assets Held for Sale	86
Note 5	Cash and Cash Equivalents	86
Note 6	Investments	87
Note 7	Funds Held by Ceding Insurers	89
Note 8	Investments in Jointly Controlled Corporations and Associates	90
Note 9	Owner-Occupied Properties and Capital Assets	92
Note 10	Other Assets	93
Note 11	Goodwill and Intangible Assets	94
Note 12	Segregated Funds and Other Structured Entities	97
Note 13	Insurance and Investment Contract Liabilities	101
Note 14	Obligations to Securitization Entities	107
Note 15	Debentures and Other Debt Instruments	108
Note 16	Other Liabilities	110
Note 17	Income Taxes	111
Note 18	Stated Capital	113
Note 19	Share-Based Compensation	115
Note 20	Non-Controlling Interests	118
Note 21	Capital Management	119
Note 22	Risk Management	121
Note 23	Operating and Administrative Expenses	134
Note 24	Financing Charges	134
Note 25	Pension Plans and Other Post-Employment Benefits	135
Note 26	Derivative Financial Instruments	140
Note 27	Fair Value Measurement	144
Note 28	Other Comprehensive Income	149
Note 29	Earnings Per Share	149
Note 30	Related Parties	150
Note 31	Contingent Liabilities	151
Note 32	Commitments and Guarantees	152
Note 33	Subsequent Events	153
Note 34	Segmented Information	154

The following abbreviations are used in these Consolidated Financial Statements:

CALM	Canadian Asset Liability Method
Canada Life	The Canada Life Assurance Company
China AMC	China Asset Management Co., Ltd.
Great-West Life	The Great-West Life Assurance Company
Great-West Life & Annuity	Great-West Life & Annuity Insurance Company
IFRS	International Financial Reporting Standards
IGM or IGM Financial	IGM Financial Inc.
IG Wealth Management	Investors Group Inc.
Irish Life	Irish Life Group Limited
Lifeco	Great-West Lifeco Inc.
London Life	London Life Insurance Company
Mackenzie or Mackenzie Investments	Mackenzie Financial Corporation
Pargesa	Pargesa Holding SA
Parjointco	Parjointco N.V.
Personal Capital	Personal Capital Corporation
Portag3	Portag3 Ventures LP
Portag3 II	Portag3 Ventures II LP
Power Corporation	Power Corporation of Canada
Power Financial or the Corporation	Power Financial Corporation
Putnam	Putnam Investments, LLC
Wealthsimple	Wealthsimple Financial Corp.

NOTE 1 Corporate Information

Power Financial Corporation, a reporting issuer in all of the provinces and territories of Canada, is incorporated and domiciled in Canada and located at 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Financial is an international management and holding company with interests in financial services and asset management businesses in Canada, the United States and Europe. It also has significant holdings in a portfolio of global companies based in Europe.

The Consolidated Financial Statements (financial statements) of Power Financial as at and for the year ended December 31, 2019 were approved by its Board of Directors on March 18, 2020. The Corporation is controlled by Power Corporation of Canada.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The financial statements of Power Financial as at December 31, 2019 have been prepared in accordance with International Financial Reporting Standards.

The financial statements include the accounts of Power Financial and its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances, and certain consolidation adjustments.

SUBSIDIARIES

Subsidiaries are entities the Corporation controls when: (i) the Corporation has power over the entity; (ii) it is exposed or has rights to variable returns from its involvement; and (iii) it has the ability to affect those returns through its use of power over the entity. Subsidiaries of the Corporation are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date such control ceases. The Corporation reassesses whether or not it controls an entity if facts and circumstances indicate there are changes to one or more of the elements of control listed above.

The principal operating subsidiaries of the Corporation are:

		% equity interest	
Corporations	Primary business operation	December 31, 2019	December 31, 2018
Great-West Lifeco Inc. [1][2]	Financial services holding company with interests in insurance and wealth management companies	70.9	71.8
IGM Financial Inc. [3][4]	Wealth and asset management	66.0	65.2
Portag3 Ventures LP [5]	Backing of innovative financial services companies	100.0	100.0
Portag3 Ventures II LP [6]	Focusing on early stage investments in the global technology sector	23.2	47.0
Wealthsimple Financial Corp. [7]	Technology-driven investment manager	84.9	81.7

[1] Power Financial holds a 66.9% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco (67.8% and 4.0%, respectively, at December 31, 2018).

[2] Lifeco's principal operating subsidiary companies are Great-West Life, Great-West Life & Annuity, London Life, Canada Life, Irish Life and Putnam. As of January 1, 2020, Great-West Life, London Life and Canada Life amalgamated into a single company: Canada Life.

[3] Power Financial holds a 62.1% equity interest and Great-West Life holds a 3.9% equity interest in IGM Financial (61.4% and 3.8%, respectively, at December 31, 2018).

[4] IGM's principal operating subsidiary companies are IG Wealth Management and Mackenzie.

[5] Power Financial holds a 63.0% equity interest and Lifeco and IGM Financial each hold an equity interest of 18.5% in Portag3 (same at December 31, 2018).

[6] Power Financial, Lifeco and IGM Financial each hold an equal equity interest of 7.7% in Portag3 II (15.7% at December 31, 2018).

[7] Power Financial, Portag3 and IGM Financial hold an equity interest of 21.2%, 16.8% and 46.9%, respectively, in Wealthsimple (16.0%, 21.9% and 43.8%, respectively, at December 31, 2018).

On April 17, 2019, Lifeco completed a substantial issuer bid (the Lifeco SIB) and purchased for cancellation 59,700,974 of its common shares at a purchase price of $33.50 per common share. The Corporation participated in the Lifeco SIB by tendering its Lifeco common shares on a proportionate basis and on a non-proportionate basis. The decrease in ownership in Lifeco resulted in a dilution gain of $108 million recorded in retained earnings and other comprehensive income reserve with a corresponding decrease in non-controlling interests in the statements of changes in equity. IGM Financial also participated on a proportionate basis in the Lifeco SIB.

The financial statements of Power Financial include, on a consolidated basis, the results of Lifeco and IGM Financial, both public companies. The amounts shown on the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are mainly derived from the publicly disclosed consolidated financial statements of Lifeco and IGM Financial, all as at and for the year ended December 31, 2019. Certain notes to Power Financial's financial statements are derived from the notes to the financial statements of Lifeco and IGM Financial.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without having control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Under the equity method, the Corporation recognizes its share of net earnings (losses), other comprehensive income (loss), the changes in equity of the jointly controlled corporations and associates, and dividends received.

The principal jointly controlled corporations and associates of the Corporation are:

			% equity interest	
Corporations	Classification	Primary business operation	2019	2018
Parjointco N.V. [1]	Joint control	Holding company	50.0	50.0
China Asset Management Co., Ltd. [2]	Associate	Asset management company	13.9	13.9

[1] Parjointco N.V. holds a 55.5% (same at December 31, 2018) equity interest in Pargesa Holding SA.

[2] Held by IGM Financial.

CHANGE IN ACCOUNTING POLICIES

IFRS 16 – LEASES (IFRS 16)

Effective January 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, *Leases* (IAS 17) and related interpretations. The standard prescribes new guidance for identifying a lease as well as the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires a lessee to recognize a right-of-use asset representing its right to use the leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. The distinction between operating and financing leases no longer applies, however an optional exemption is available for short-term and low-value leases.

Impact of transition to IFRS 16

The Corporation has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Corporation elected to measure right-of-use assets on a lease-by-lease basis at either i) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized on the balance sheets immediately before the date of initial application; or ii) at its carrying amount as if IFRS 16 had been applied since the commencement date but discounted using the Corporation's incremental borrowing rate at January 1, 2019. When measuring lease liabilities, the Corporation and its subsidiaries discounted lease payments using their respective incremental borrowing rates at January 1, 2019. The weighted-average incremental borrowing rate was 3.95% at January 1, 2019.

On transition, the Corporation and its subsidiaries elected to apply practical expedients including: i) to not recognize right-of-use assets and lease liabilities for leases for which the remaining lease terms end within twelve months of the date of transition; and ii) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Impact on the balance sheet as at January 1, 2019:

	December 31, 2018 (as previously reported)	Impact of IFRS 16	January 1, 2019 (restated)
Assets			
Investment properties	5,218	29	5,247
Owner-occupied properties and capital assets	1,331	560	1,891
		589	
Liabilities and shareholders' equity			
Other liabilities [1]	10,960	597	11,557
Deferred tax liabilities	1,517	(2)	1,515
Retained earnings	15,967	(3)	15,964
Non-controlling interests	13,369	(3)	13,366
		589	

[1] Accrued lease payments of $64 million within other liabilities on the balance sheet at December 31, 2018 were reclassified to decrease right-of-use assets.

The following table reconciles the Corporation and its subsidiaries' operating lease obligations at December 31, 2018, as previously disclosed in the Corporation's consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	1,039
Discounting using the incremental borrowing rate at January 1, 2019	(186)
Non-lease components included in operating lease commitments	(127)
Leases not yet commenced at January 1, 2019 included in operating lease commitments	(59)
Short-term leases included in operating lease commitments	(6)
Low-value leases included in operating lease commitments	(6)
Renewal options not included in operating lease commitments	6
Lease liabilities recognized at January 1, 2019	661

The application of IFRS 16 did not have a material impact on the statement of earnings or the statement of cash flows for the year ended December 31, 2019, except for the classification of lease payments as financing activities instead of operating activities. The adoption of IFRS 16 did not have an impact on net cash flows.

IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS (IFRIC 23)

Effective January 1, 2019, the Corporation adopted IFRIC 23 which clarifies the application of the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under IFRIC 23, a provision for tax uncertainties which meets the probable threshold for recognition is measured based on the amount most likely to occur. The provision for tax uncertainties is classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. The application of the interpretation of the standard resulted in a decrease of $109 million to Lifeco's retained earnings. The Corporation's share of this impact is $77 million.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the preparation of the financial statements, management of the Corporation and management of its subsidiaries are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation, uncertainty and areas where significant judgments have been made by the management of the Corporation and the management of its subsidiaries are listed below and are discussed throughout the notes in these financial statements, including:

Item or balance affected by judgments or estimates	Applied by	Key judgments or estimates	Corresponding note(s)
Evaluation of control	Management of the Corporation and of its subsidiaries	Determining if the Corporation has the ability to direct the relevant activities of the subsidiaries or other structured entities in order to derive variable returns. Judgment is exercised in evaluating the variable returns and in determining the extent to which the Corporation has the ability to exercise power to affect variable returns.	n/a
Evaluation of significant influence and joint control	Management of the Corporation and of its subsidiaries	Determining if the Corporation exercises significant influence over the entity's operating and financing policies, or if unanimous consent is required for decisions relating to relevant activities.	n/a
Evaluation of disposal group	Management of Lifeco	Determining the assets and liabilities to be included in the disposal group requires judgment and the fair value of the disposal group requires estimation.	4
Classification of insurance and reinsurance contracts	Management of Lifeco	Determining whether arrangements should be accounted for as insurance, investment or service contracts.	13
Valuation of insurance and certain investment contract liabilities in accordance with CALM	Management of Lifeco	Determining the actuarial assumptions, including interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders.	13
Provision for future credit losses within certain insurance contract liabilities	Management of Lifeco	The provision for future credit losses within insurance contract liabilities is based on investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available. Judgment is required when setting credit ratings for instruments that do not have a third-party rating.	13
Fair value of financial instruments	Management of the Corporation and of its subsidiaries	Determining fair value inputs to establish the fair value of financial instruments, particularly those items categorized within Level 3 of the fair value hierarchy.	27
Fair value of equity-release mortgages	Management of Lifeco	Internal valuation models are used to determine the fair value of equity-release mortgages. These valuations are adjusted by applying management judgments and estimates for material changes in projected asset cash flows and discount rates.	6
Fair value of investment properties	Management of Lifeco	Independent qualified appraisal services are used to determine the fair value of investment properties, which use assumptions that include judgments and estimates. These appraisals are adjusted by applying management's judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions.	6

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Item or balance affected by judgments or estimates	Applied by	Key judgments or estimates	Corresponding note(s)
Initial recognition and measurement of goodwill and intangible assets, as well as subsequent measurement	Management of the Corporation and of its subsidiaries	Evaluating the synergies and future benefits in business combinations for initial recognition and measurement of goodwill and intangible assets as well as determining the recoverable amount. The determination of the recoverable amount of the cash generating units (to which goodwill and intangible assets are assigned) relies upon valuation methodologies that require the use of estimates.	3, 11
Determination of cash generating unit groupings	Management of the Corporation and of its subsidiaries	Determining the cash generating unit groupings as the lowest level at which the assets are monitored for internal reporting purposes.	11
Measurement of the pension and other post-employment benefit obligations	Management of the Corporation and of its subsidiaries	Determining the actuarial assumptions used to determine the expense and defined benefit obligations for pension plans and other post-employment benefits. Management reviews the previous experience of related plan members and market conditions, including interest rates and inflation rates, in evaluating the assumptions used in determining the expense for the current year.	25
Recognition and measurement of tax provisions and tax assets and liabilities	Management of the Corporation and of its subsidiaries	Interpreting the relevant tax laws, regulations and legislation where the Corporation and its subsidiaries operate to determine the tax provisions and the carrying amounts of the tax assets and liabilities.	17
Recoverability of deferred tax asset carrying values	Management of the Corporation and of its subsidiaries	Assessing the recoverability of the deferred tax asset carrying values based on future years' taxable income projections.	17
Recognition and measurement of legal and other provisions	Management of the Corporation and of its subsidiaries	Assessing whether a past event will result in a probable outflow of economic resources to settle the obligation. Judgment is used in evaluating the possible outcomes and risks to determine the best estimate of the provision at the balance sheet date.	31
Derecognition of securitization mortgages	Management of IGM	Determining whether securitized mortgages are derecognized requires judgment with respect to the extent to which the risks and rewards of ownership are transferred.	14
Classification of purchases and sales of portfolio investments in the statements of cash flows	Management of Lifeco	Determining if purchases and sales of portfolio investments are long term in nature, which would result in recording them within investment activities in the consolidated statements of cash flows.	n/a
Classification of revenues and expenses in sub-advisor arrangements	Management of Lifeco	Determining whether Lifeco retains the primary obligation with a client in sub-advisor arrangements. Where Lifeco retains the primary obligation to the client, revenues and expenses are recorded on a gross basis.	n/a
Deferred selling commissions	Management of IGM	Determining whether the client or the fund is the customer, as well as the assessment of the recoverability of the deferred selling commissions.	10
Deferred acquisition costs	Management of Lifeco	Determining whether deferred acquisition costs can be recognized on the consolidated balance sheets. Deferred acquisition costs are recognized if Lifeco's management determines the costs meet the definition of an asset and are incremental and related to the issuance of the investment contract.	10

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Interest income is accounted for on an accrual basis using the effective interest method for bonds and mortgage and other loans. Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed shares and usually the notification date or date when the shareholders have approved the dividend for private equity instruments. Interest income and dividend income are recorded in net investment income in the Consolidated Statements of Earnings (statements of earnings).

Lifeco

Premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk are generally recognized as revenue when due and collection is reasonably assured.

Investment property income includes rents earned from tenants under lease agreements and property tax and operating cost recoveries. Leases with contractual rent increases and rent-free periods are recognized on a straight-line basis over the term of the lease. Investment property income is included in net investment income in the statements of earnings.

Fee income primarily includes fees earned from the management of segregated fund assets, proprietary mutual fund assets, record keeping, fees earned on administrative services only for Group health contracts, commissions and fees earned from management services. Fee income is recognized on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

Lifeco has sub-advisor arrangements where Lifeco retains the primary obligation with the client. As a result, fee income earned is reported on a gross basis, with the corresponding sub-advisor expense recorded in operating and administrative expenses.

IGM Financial

Management fees are based on the net asset value of the investment fund or other assets under management and are recognized on an accrual basis as the service is performed. Administration fees are recognized on an accrual basis as the service is performed. Distribution fees derived from investment fund and securities transactions are recognized on a trade-date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis. Consideration is collected within a short period from the date of revenue recognition of the associated services. Management, administration and distribution fees are included in fee income in the statements of earnings.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, current operating accounts, overnight bank and term deposits and fixed income securities with an original term to maturity of three months or less.

INVESTMENTS

Investments include bonds, mortgage and other loans, shares, investment properties, and loans to policyholders of Lifeco. Investments are classified as either fair value through profit or loss, available for sale, held to maturity, loans and receivables, or as non-financial instruments based on management's intention relating to the purpose and nature of the instruments or the characteristics of the investments. The Corporation and its subsidiaries currently have not classified any investments as held to maturity.

A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch or if a financial asset is managed and its performance is evaluated on a fair value basis. For Lifeco, changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Investments in mortgage and other loans are initially classified with respect to the intent of the loan on origination.

Investments in bonds (including fixed income securities), mortgage and other loans and shares actively traded on a public market or where fair value can be reliably measured are either designated or classified as fair value through profit or loss or classified as available for sale and are recorded on a trade-date basis. Equity-release mortgages are designated as fair value through profit or loss.

Fair value through profit or loss investments are recorded at fair value on the Consolidated Balance Sheets (balance sheets) with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recorded at fair value on the balance sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses are reclassified from other comprehensive income and recorded in net investment income in the statements of earnings when the available-for-sale investment is sold or impaired.

Investments in mortgage and other loans and bonds not actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned, impairments and realized gains and losses on the sale of investments classified as loans and receivables are recorded in net investment income in the statements of earnings.

Investment properties consist of real estate held to earn rental income or for capital appreciation that have an insignificant portion that is owner-occupied or where there is no intent to occupy on a long-term basis. Properties that do not meet these criteria are classified as owner-occupied properties. Investment properties are initially measured at cost and subsequently carried at fair value on the balance sheets. Changes in fair value are recorded as net investment income in the statements of earnings.

Loans to policyholders of Lifeco are classified as loans and receivables and measured at amortized cost. Loans to policyholders are shown at their unpaid principal balance and are fully secured by the cash surrender values of the policies. The carrying value of loans to policyholders approximates fair value.

Fair value measurement

The carrying values of financial assets reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation and its subsidiaries rely upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance contract liabilities are largely offset by corresponding changes in the fair value of these liabilities, except when the bond has been deemed impaired.

The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following is a description of the methodologies used to determine fair value.

a) Bonds and mortgage and other loans at fair value through profit or loss and available for sale

Fair values of bonds and mortgage and other loans recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds and mortgage and other loans at fair value. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate the fair value of bonds and mortgage and other loans not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodologies, discounted cash flow analyses and/or internal valuation models. These methodologies consider such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as yield curves, credit curves, prepayment rates and other relevant factors. For bonds and mortgage and other loans that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

b) Shares at fair value through profit or loss and available for sale

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movements relative to the market and utilization of information provided by the underlying investment manager. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure shares at fair value.

c) Equity-release mortgages at fair value through profit or loss

There are no market observable prices for equity-release mortgages; an internal valuation model is used which is based on discounting expected future cash flows and considering the embedded no-negative-equity guarantee. Inputs to the model include market-observable inputs such as benchmark yields and risk-adjusted spreads. Non-market observable inputs include property growth and volatility rates, expected rates of voluntary redemptions, death, moving to long-term care and interest cessation assumptions and the value of the no-negative-equity guarantee.

d) Bonds and mortgage and other loans classified as loans and receivables

The fair values disclosed for bonds and mortgage and other loans, classified as loans and receivables, are determined by discounting expected future cash flows using current market rates for similar instruments. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

e) Investment properties

Fair values for investment properties are determined using independent qualified appraisal services and include adjustments by Lifeco management for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment properties requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

Impairment

Investments are reviewed on an individual basis at the end of each reporting period to determine whether there is any objective evidence of impairment. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired bonds and mortgage and other loans classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the net realizable value. Where available-for-sale bonds are determined to be impaired, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, interest is no longer accrued on impaired bonds and mortgage and other loans and previous interest accruals are reversed in net investment income.

Impairment losses on available-for-sale shares are recorded in net investment income if the loss is significant or prolonged. Subsequent losses are recorded directly in net investment income.

Securities lending

Lifeco engages in securities lending through its securities custodians as lending agents. Loaned securities are not derecognized, and continue to be reported within investments, as Lifeco retains substantial risks and rewards and economic benefits related to the loaned securities.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

TRANSACTION COSTS

Transaction costs related to financial instruments classified or designated as fair value through profit or loss are expensed as incurred. Transaction costs related to financial assets classified as available for sale or loans and receivables are included in the value of the instrument at acquisition, and recorded in net earnings using the effective interest method. Transaction costs related to financial liabilities classified as other than fair value through profit or loss are deducted from the value of the instrument issued and recorded in net earnings using the effective interest method.

OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

Owner-occupied properties and capital assets include right-of-use assets.

Owner-occupied properties and capital assets are carried at cost less accumulated depreciation, disposals and impairments. Capital assets include equipment, furniture and fixtures. Owner-occupied properties, equipment, furniture and fixtures are depreciated using the straight-line method, over their estimated useful lives, as follows: i) owner-occupied properties (10 to 50 years); and ii) capital assets (3 to 17 years).

Right-of-use assets are depreciated to the earlier of the end of the estimated useful life of right-of-use asset or the end of the lease term using the straight-line method. Depreciation expense is included within operating and administration expenses.

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary. Owner-occupied properties and capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

LEASES

At inception of a contract, the Corporation and its subsidiaries assess whether a contract is or contains a lease. The Corporation and its subsidiaries recognize a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. Right-of-use assets are included within owner-occupied properties and capital assets with the exception of right-of-use assets which meet the definition of investment property which are presented within investment properties and subject to the Corporation's associated accounting policy.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's or its subsidiaries' incremental borrowing rate. Generally, the incremental borrowing rate is used. The lease liability is measured at amortized cost using the effective interest method and is included within other liabilities. Interest expense on lease liabilities is included within financing charges.

The Corporation and its subsidiaries do not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the term within operating and administrative expenses.

For the 2018 comparative figures, leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Corporation and its subsidiaries are the lessee, are recorded in net earnings over the period of use.

Where the Corporation and its subsidiaries are the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the balance sheets. Income from these leases is recognized in the statements of earnings on a straight-line basis over the lease term.

Leases that transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Where the Corporation and its subsidiaries are the lessor under a finance lease, the investment is recognized as a receivable at an amount equal to the net investment in the lease which is the present value of the minimum lease payments due from the lessee presented within the balance sheets. Payments received from the lessee are apportioned between the recognition of finance lease income and the reduction of the finance lease receivable. Income from the finance leases is recognized in the statements of earnings at a constant periodic rate of return on net investment in the finance lease.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

OTHER ASSETS

Other assets include premiums in course of collection, accounts receivable and interest receivable, prepaid expenses, deferred acquisition costs, deferred selling commissions and miscellaneous other assets which are measured at amortized cost.

Deferred acquisition costs

Deferred acquisition costs relating to investment contracts are recognized as assets if the costs are incremental and incurred due to the contract being issued. Deferred acquisition costs are amortized on a straight-line basis over the term of the policy, not exceeding 20 years.

Deferred selling commissions

Commissions are paid on investment product sales where IGM either receives a fee directly from the client or where it receives a fee directly from the investment fund.

Commissions paid on investment product sales where IGM receives a fee directly from the client are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

All other commissions paid on investment product sales are expensed as incurred.

ASSETS AND LIABILITIES HELD FOR SALE

Disposal groups are classified as held for sale when it has been determined that the carrying amount will be recovered through a sale transaction rather than continuing use. The disposal group is measured at the lower of its carrying amount and fair value less cost to sell. Individual assets and liabilities in a disposal group not subject to these measurement requirements include financial assets, investment properties and insurance contract liabilities. These assets and liabilities are measured in accordance with the relevant accounting policies described for those assets and liabilities included in this note before the disposal group as a whole is measured at the lower of its carrying amount and fair value less cost to sell. Any impairment loss for the disposal group is recognized as a reduction to the carrying amount for the portion of the disposal group under the measurement requirements for IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*.

Disposal group assets and liabilities classified as held for sale are presented separately on the balance sheets. Losses from disposal groups held for sale are included in operating and administrative expenses.

BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

Business combinations are accounted for using the acquisition method. Goodwill represents the excess of purchase consideration over the fair value of net assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets comprise finite life and indefinite life intangible assets. Finite life intangible assets include the value of technology and software and certain customer contracts. Finite life intangible assets are reviewed at least annually to determine if there are indicators of impairment and the amortization period and method are reviewed and adjusted if necessary. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows: i) technology and software (3 to 10 years); and ii) customer contract-related (7 to 30 years).

Indefinite life intangible assets include brands, trademarks and trade names, certain customer contracts, mutual fund management contracts and the shareholders' portion of acquired future participating account profit. Amounts are classified as indefinite life intangible assets based on an analysis of all the relevant factors, and when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. The identification of indefinite life intangible assets is made by reference to relevant factors such as product life cycles, potential obsolescence, industry stability and competitive position. Following initial recognition, indefinite life intangible assets are measured at cost less accumulated impairment losses.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Impairment testing

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

Goodwill and indefinite life intangible assets have been allocated to cash generating units or to groups of cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of the CGU to the recoverable amount of the CGU to which the goodwill and indefinite life intangible assets have been allocated.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of disposal or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

SEGREGATED FUNDS

Segregated fund assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately in the balance sheets. The assets and liabilities are set equal to the fair value of the underlying asset portfolio. Investment income and change in fair value of the segregated fund assets are offset by corresponding changes in the segregated fund liabilities.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Contract classification

When significant insurance risk exists, Lifeco's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Significant insurance risk exists when Lifeco agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Refer to Note 13 for a discussion on Lifeco's insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Lifeco has not classified any contracts as investment contracts with discretionary participating features.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to Note 22 for a discussion on Lifeco's risk management.

Measurement

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiaries are responsible for determining the amount of the liabilities in order to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the CALM. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality and morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and for future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

REINSURANCE CONTRACTS

Lifeco, in the normal course of business, is a user of reinsurance in order to limit the potential for losses arising from certain exposures and a provider of reinsurance. Assumed reinsurance refers to the acceptance of certain insurance risks by Lifeco underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, Lifeco remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Reinsurance contracts are insurance contracts and undergo the classification as described within the Insurance and Investment Contract Liabilities section of this note. Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Lifeco considers various factors in the impairment evaluation process, including, but not limited to, collectability of amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the statements of earnings.

Any gains or losses on buying reinsurance are recognized in the statement of earnings immediately at the date of purchase in accordance with the CALM.

Assets and liabilities related to reinsurance are reported on a gross basis in the balance sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

FUNDS HELD BY CEDING INSURERS / FUNDS HELD UNDER REINSURANCE CONTRACTS

On the asset side, funds held by ceding insurers are assets that would normally be paid to Lifeco but are retained by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds-withheld basis supporting the insurance or investment contract liabilities ceded. For the funds-withheld assets where the underlying asset portfolio is managed by Lifeco, the credit risk is retained by Lifeco. The funds-withheld balance where Lifeco assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See Note 7 for funds held by ceding insurers that are managed by Lifeco. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds-withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

On the liability side, funds held under reinsurance contracts consist mainly of amounts retained by Lifeco from ceded business written on a funds-withheld basis. Lifeco withholds assets related to ceded insurance contract liabilities in order to reduce credit risk.

POLICYHOLDER BENEFITS

Policyholder benefits include benefits and claims on life insurance contracts, maturity payments, annuity payments and surrenders. Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

DERECOGNITION OF SECURITIZED MORTGAGES

IGM enters into transactions where it transfers financial assets recognized on its balance sheets. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

If substantially all of the risks and rewards of a financial asset are not retained, IGM derecognizes the financial asset. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in net investment income in the statements of earnings.

If all or substantially all risks and rewards are retained, the financial assets are not derecognized and the transactions are accounted for as secured financing transactions.

OTHER FINANCIAL LIABILITIES

Debentures and other debt instruments, and capital trust debentures are initially recorded on the balance sheets at fair value and subsequently carried at amortized cost using the effective interest method with amortization expense recorded in financing charges in the statements of earnings. These liabilities are derecognized when the obligation is expired, cancelled or redeemed.

Accounts payable, dividends and interest payable, and deferred income reserves are measured at amortized cost. Deferred income reserves related to investment contracts are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not exceeding 20 years.

Provisions are recognized within other liabilities when the Corporation or its subsidiaries have a present obligation, either legal or constructive, as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount. Provisions are measured based on management of the Corporation and of its subsidiaries' best estimate at the balance sheet date. The Corporation recognizes a provision for restructuring when a detailed formal plan for the restructuring has been established and the plan has raised a valid expectation in those affected that the restructuring will occur.

Limited-life fund units represent the interest held by third parties in funds consolidated by the Corporation. These fund units have a defined maximum fixed life where the Corporation has an obligation to distribute the residual interests of the fund to fund partners based on their proportionate share of the fund's equity in the form of cash or other financial assets at the end of the fund's life. Limited-life funds are classified as liabilities and recorded at fair value. Changes in the value are recorded in the statements of earnings in the period of the change.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors, unfunded supplementary employee retirement plans (SERP) for certain employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. Expenses for defined benefit plans are actuarially determined using the projected unit credit method prorated on service, based upon management of the Corporation and of its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The Corporation and its subsidiaries' accrued benefit liability in respect to defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined by reference to market yields on high-quality corporate bonds.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.

Net interest costs, current service costs, past service costs and curtailment and settlement gains or losses are included in operating and administrative expenses.

Remeasurements represent actuarial gains and losses and the actual return on plan assets, less interest calculated at the discount rate, and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not subsequently reclassified to net earnings.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

The accrued benefit asset (liability) represents the plan surplus (deficit) and is included in other assets (other liabilities).

Contributions to the defined contribution plans are expensed as incurred.

INCOME TAXES

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or recovery in the statements of earnings, except to the extent that it relates to items that are not recognized in the statements of earnings (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized in other comprehensive income or directly in equity.

Current income tax

Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current tax liabilities are offset, if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred income tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income and on unused tax attributes, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax attributes can be utilized.

Recognition of deferred tax assets is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets. The Corporation and its subsidiaries' financial planning process provides a significant basis for the measurement of deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, jointly controlled corporations and associates, except where the group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation and its subsidiaries use derivative products as risk management instruments to hedge or manage revenues and asset, liability and capital positions. The Corporation and its subsidiaries' policies prohibit the use of derivative instruments for speculative trading purposes.

Derivatives are measured at fair value and recorded on the balance sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income in the statements of earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The Corporation and its subsidiaries generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently, as if there was no hedging relationship.

Where a hedging relationship exists, the Corporation and its subsidiaries document all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheets or to specific firm commitments or forecasted transactions. The Corporation and its subsidiaries also assess, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting change in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing. Hedge accounting is discontinued when the hedge no longer qualifies for hedge accounting.

Fair value hedges

Fair value hedges are used to manage the exposure to change in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, change in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

Cash flow hedges

Cash flow hedges are used to manage the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. For cash flow hedges, the effective portion of the change in fair value of the hedging instrument is recorded in other comprehensive income, while the ineffective portion is recognized immediately in net investment income. Gains and losses on cash flow hedges that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when a forecasted transaction is no longer expected to occur.

Net investment hedges

Net investment hedges are used to manage the exposure to changes in the reporting entity's share in the net share of a foreign operation. For net investment hedges, the effective portion of changes in the fair value of the hedging instrument is recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. The unrealized foreign exchange gains (losses) on the instruments are recorded within other comprehensive income and will be reclassified into net earnings when the investments are derecognized.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Embedded derivatives are treated as separate contracts and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through the statement of earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

EQUITY

Preferred shares are classified as equity if they are non-redeemable or if they are retractable only at the Corporation's option and if any dividends are discretionary. Costs that are directly attributable to the issue of share capital are recognized as a reduction from retained earnings, net of income tax.

Reserves are composed of share-based compensation and other comprehensive income. Share-based compensation reserve represents the vesting of options less options exercised. Other comprehensive income represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the actuarial gains (losses) on benefit pension plans, the unrealized gains (losses) on available-for-sale investments, the unrealized gains (losses) on cash flow hedges, and the share of other comprehensive income of jointly controlled corporations and associates.

Non-controlling interests represent the proportion of equity that is attributable to minority shareholders of subsidiaries.

SHARE-BASED PAYMENTS

Options granted to employees of the Corporation and its subsidiaries are measured at fair value on the date of the grant. Compensation expense is recognized in operating and administrative expenses in the statements of earnings over the vesting period of the granted options, with a corresponding increase in share-based compensation reserve. When the stock options are exercised, the proceeds received, together with the amount recorded in share-based compensation reserve, are included in the stated capital of the entity issuing the corresponding shares.

The Corporation and its subsidiaries recognize a liability for cash-settled awards, including those granted under Performance Share Unit plans and Deferred Share Unit plans. Compensation expense is recognized in operating and administrative expenses in the statements of earnings, net of related hedges, and a liability is recognized on the balance sheets over the vesting period. The liability is remeasured at fair value at each reporting period with the change in the liability recorded in operating and administrative expenses.

FOREIGN CURRENCY TRANSLATION

The Corporation and its subsidiaries operate with multiple functional currencies. The Corporation's financial statements are prepared in Canadian dollars, which is the functional and presentation currency of the Corporation.

Assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at exchange rates prevailing at the balance sheet dates for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenues and expenses denominated in foreign currencies are translated into each entity's functional currency at an average of daily rates. Realized and unrealized exchange gains and losses are included in net investment income.

Translation of net investment in foreign operations

Foreign operations are subsidiaries, jointly controlled corporations, associates and/or business units with functional currencies other than the Canadian dollar. Assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all revenues and expenses are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Corporation's net investment in its foreign operations are presented as a component of other comprehensive income. Unrealized foreign currency translation gains and losses are recognized proportionately in net earnings when there has been a disposal of a foreign operation.

EARNINGS PER COMMON SHARE

Basic earnings per common share is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per common share is determined using the same method as basic earnings per common share, except that net earnings available to common shareholders and the weighted average number of common shares outstanding are adjusted to include the potential dilutive effect of outstanding stock options granted by the Corporation and its subsidiaries, as determined by the treasury stock method.

COMPARATIVE FIGURES

The Corporation reclassified certain comparative figures for disclosure items to conform to the current year's presentation. These reclassifications had no impact on the total equity or net earnings of the Corporation.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

FUTURE ACCOUNTING CHANGES

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

New standard	Summary of future changes
IFRS 17 – *Insurance Contracts* (IFRS 17)	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard by one year to January 1, 2022. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period on the exposure draft, on March 17, 2020, the IASB approved the deferral of the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. In addition, the IASB extended to January 1, 2023 the exemption for insurers to apply the financial instruments standard, IFRS 9 - *Financial Instruments*, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB has also confirmed certain amendments proposed in the exposure draft – namely the amendment on the expected recovery of insurance acquisition cash flows – and has also agreed to extend the scope of the amendment related to the recovery of losses on reinsurance contracts to apply to all reinsurance held contracts. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework and project plan, for which substantial resources are being dedicated. Lifeco has assembled a project team that is working on implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. These groups are also monitoring developments from the IASB and various industry groups that Lifeco has representation on. Lifeco has made progress in implementing its project plan, with key policy decisions well advanced as well as progression on the implementation of the technology solution. Lifeco continues to evaluate the readiness of technology vendors and their ability to deliver for IFRS 17 implementation. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows: the current estimates of amounts that Lifeco expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin: the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the CALM, where the discount rate was based on the yield curves of the assets supporting those liabilities (refer to the Corporation's significant accounting policies in Note 2 of these financial statements). The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance coverage is provided. IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, Lifeco expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how the financial performance is reported in the statements of earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. Lifeco is also actively monitoring potential impacts on regulatory capital and its associated ratios and disclosures. Lifeco continues to assess all these impacts through its global implementation plan.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)

New standard	Summary of future changes
Current implication of IFRS 9 – *Financial Instruments* (IFRS 9)	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, the current standard for accounting for financial instruments, with an effective date of January 1, 2018. The effective date for IFRS 9 has been deferred to align with the effective date for IFRS 17 of January 1, 2023. The standard was completed in three separate phases: ▪ Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. ▪ Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model. ▪ Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities. In September 2016, the IASB issued an amendment to IFRS 4, *Insurance Contracts* (IFRS 4). The amendment "Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: ▪ *Deferral Approach:* provides the option to defer implementation of IFRS 9 until the proposed effective date of the new insurance contract standard; or ▪ *Overlay Approach:* provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Corporation qualifies and has elected to apply the deferral approach which permits the adoption of both IFRS 9 and IFRS 17, simultaneously. The disclosure for the measurement and classification of the Corporation's portfolio investments provides most of the information required by IFRS 9. The Corporation and Lifeco continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. Pargesa (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted although not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to Pargesa's results.
IFRS 3 – *Business Combinations* (IFRS 3)	In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. The amendments will be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.
IAS 1 – *Presentation of Financial Statements* (IAS 1) and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8)	In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments are to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2020.
IFRS 9 – *Financial Instruments* (IFRS 9) IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39) and IFRS 7 – *Financial Instruments: Disclosures* (IFRS 7)	In September 2019, the IASB issued amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective for periods beginning on or after January 1, 2020. Although adoption of these amendments will not have a significant impact on the Corporation's consolidated financial statements, additional disclosures will be required.

NOTE 3 Business Acquisitions and Other Transactions

LIFECO

U.S. individual life insurance and annuity business reinsurance agreement

On January 24, 2019, Great-West Life & Annuity, a wholly owned subsidiary of Lifeco, announced that it had entered into an agreement with Protective Life Insurance Company (Protective Life) to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business in the United States. The transaction was completed on June 1, 2019. As a result of the transaction, the balance sheets were impacted by the transfer of $15,511 million of investments to Protective Life (Note 6), recognition of $15,230 million of reinsurance assets (Note 13) and $985 million of cash received. Within the statements of earnings, Lifeco recognized increases of $13,889 million to ceded premiums, $1,080 million to fee income, $219 million to net investment income (Note 6) and $120 million to operating and administrative expenses (Note 23), as well as a decrease of $12,463 million to total paid or credited to policyholders.

In the second quarter of 2019, Lifeco recognized a loss of $247 million ($199 million after tax) related to this transaction, which included transaction costs of $80 million ($63 million after tax), and $45 million ($36 million after tax) due to updated expense assumptions primarily related to stranded overhead. The liabilities transferred and ceding commissions received at the closing of this transaction are subject to future adjustments. In October 2019, Protective Life provided Lifeco with its listing of proposed adjustments with respect to the liabilities transferred. In December 2019, Lifeco formally objected to these proposed adjustments. The Master Transaction Agreement requires the parties to attempt to resolve these differences in an informal manner and that process is ongoing. Based on the information presently known, it is difficult for Lifeco to predict the outcome of this matter with certainty, but this matter is not expected to materially impact the Corporation's financial position.

Invesco Ltd. (Ireland)

On August 1, 2018, Lifeco, through its indirect wholly owned subsidiary Irish Life, completed its agreement to acquire a controlling interest in Invesco Ltd. (Ireland), an independent financial consultancy firm in Ireland specializing in employee benefit consultancy and private wealth management that manages and administers assets on behalf of clients.

During the second quarter of 2019, Lifeco completed its comprehensive evaluation of the fair value of the net assets acquired, including intangible assets and completion of the final purchase price allocation, with no significant adjustment to goodwill. Revenue and net earnings of Invesco Ltd. (Ireland) were not significant to the results of the Corporation.

NOTE 4 Assets Held for Sale

Sale of policies to Scottish Friendly Assurance Society Limited

On June 21, 2018, Canada Life Limited, an indirect wholly owned subsidiary of Lifeco, announced an agreement to sell a heritage block of individual policies to Scottish Friendly of $4,216 million, comprised of unit-linked policies of $3,319 million and non-unit-linked policies of $897 million.

The initial composition of the assets and liabilities of the disposal group classified as assets held for sale at December 31, 2018 was as follows:

	December 31, 2018
Assets	
Cash and cash equivalents	112
Investments	
Bonds	731
Shares	22
Investment properties	29
Loans to policyholders	3
Assets held for sale	897
Investments on account of segregated fund policyholders	3,319
Total assets included in disposal group classified as held for sale	4,216
Liabilities	
Insurance contract liabilities	870
Investment contract liabilities	27
Liabilities held for sale	897
Insurance and investment contracts on account of segregated fund policyholders	3,319
Total liabilities included in disposal group classified as held for sale	4,216

On October 22, 2019, the required court approval for the transfer of these policies was received and the transfer occurred, effective November 1, 2019, as part of Lifeco's United Kingdom Business Transformation (Note 23).

Net earnings from the disposal of these policies will be finalized in the first half of 2020 and are not expected to be material to the financial statements.

NOTE 5 Cash and Cash Equivalents

	December 31, 2019	December 31, 2018
Cash	3,280	2,880
Cash equivalents	2,992	2,744
Cash and cash equivalents	6,272	5,624

At December 31, 2019, cash amounting to $578 million was restricted for use by subsidiaries ($339 million at December 31, 2018) primarily in respect of cash held in trust for reinsurance agreements or with regulatory authorities, under certain indemnity arrangements and in escrow.

NOTE 6 Investments

CARRYING VALUES AND FAIR VALUES

Carrying values and estimated fair values of investments are as follows:

	December 31, 2019[1]		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated as fair value through profit or loss [2]	84,128	84,128	89,929	89,929
Classified as fair value through profit or loss [2]	1,717	1,717	1,886	1,886
Available for sale	11,910	11,910	13,532	13,532
Loans and receivables	17,372	19,344	19,722	20,619
	115,127	117,099	125,069	125,966
Mortgage and other loans				
Loans and receivables	30,131	31,085	31,900	32,349
Designated as fair value through profit or loss [2]	1,314	1,314	813	813
Classified as fair value through profit or loss [2]	-	-	4	4
	31,445	32,399	32,717	33,166
Shares				
Designated as fair value through profit or loss [2]	9,752	9,752	8,658	8,658
Classified as fair value through profit or loss [2]	173	173	136	136
Available for sale [3]	263	263	452	452
	10,188	10,188	9,246	9,246
Investment properties	5,887	5,887	5,218	5,218
Loans to policyholders	8,601	8,601	8,929	8,929
	171,248	174,174	181,179	182,525

[1] As a result of the reinsurance transaction with Protective Life (Note 3), investments were derecognized and reinsurance assets were recognized (Note 13).

[2] A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch or if a financial asset is managed and its performance is evaluated on a fair value basis. For Lifeco, changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

[3] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are held at cost.

BONDS AND MORTGAGE AND OTHER LOANS

Carrying value of bonds and mortgage and other loans due over the current and non-current term is as follows:

				Carrying value
	Term to maturity			
December 31, 2019	1 year or less	1-5 years	Over 5 years	Total
Bonds	12,287	26,044	76,759	115,090
Mortgage and other loans [1]	2,451	13,837	15,126	31,414
	14,738	39,881	91,885	146,504

[1] Mortgage and other loans include equity-release mortgages which do not have a fixed redemption date. The maturity profile of the portfolio has therefore been estimated based on redemption experience.

				Carrying value
	Term to maturity			
December 31, 2018	1 year or less	1-5 years	Over 5 years	Total
Bonds	11,771	28,360	84,736	124,867
Mortgage and other loans [1]	2,228	14,359	16,103	32,690
	13,999	42,719	100,839	157,557

[1] Mortgage and other loans include equity-release mortgages which do not have a fixed redemption date. The maturity profile of the portfolio has therefore been estimated based on redemption experience.

The table shown above excludes the carrying value of impaired bonds and mortgage and other loans, as the ultimate timing of collectability is uncertain.

NOTE 6 Investments (continued)

IMPAIRED INVESTMENTS AND ALLOWANCE FOR CREDIT LOSSES

Carrying amount of impaired investments is as follows:

	December 31, 2019	December 31, 2018
Impaired amounts by classification		
Fair value through profit or loss	21	178
Available for sale	16	30
Loans and receivables	31	31
Total	68	239

The carrying amount of impaired investments includes bonds, mortgage and other loans and shares. The above carrying values for loans and receivables are net of allowances for credit losses of $52 million as at December 31, 2019 ($21 million as at December 31, 2018). The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

NET INVESTMENT INCOME

Year ended December 31, 2019	Bonds	Mortgage and other loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	3,962	956	302	374	551	6,145
Net realized gains						
Available-for-sale	57	–	46	–	–	103
Other classifications [1]	164	175	–	–	–	339
Net allowances for credit losses on loans and receivables	–	(50)	–	–	–	(50)
Other income (expenses)	–	6	–	(117)	(166)	(277)
	4,183	1,087	348	257	385	6,260
Change in fair value through profit or loss	5,785	107	1,446	37	(388)	6,987
Net investment income	9,968	1,194	1,794	294	(3)	13,247

[1] Includes realized gains from invested assets transferred as a result of the reinsurance transaction with Protective Life (Note 3).

Year ended December 31, 2018	Bonds	Mortgage and other loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	4,427	969	272	340	526	6,534
Net realized gains						
Available-for-sale	(7)	–	6	–	–	(1)
Other classifications	15	82	–	–	21	118
Net allowances for credit losses on loans and receivables	–	(4)	–	–	–	(4)
Other income (expenses)	–	(3)	–	(95)	(123)	(221)
	4,435	1,044	278	245	424	6,426
Change in fair value through profit or loss	(3,040)	(24)	(774)	33	201	(3,604)
Net investment income	1,395	1,020	(496)	278	625	2,822

Investment income earned comprises income from investments that are classified as available for sale, loans and receivables and investments classified or designated as fair value through profit or loss, net of impairment charges. Investment income from bonds and mortgage and other loans includes interest income and premium and discount amortization. Income from shares includes dividends and distributions from equity investment funds. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

NOTE 6 Investments (continued)

TRANSFERRED FINANCIAL ASSETS

Lifeco engages in securities lending to generate additional income. Lifeco's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with Lifeco's lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent, who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. Included in the collateral deposited with Lifeco's lending agent is cash collateral of $398 million as of December 31, 2019 ($84 million at December 31, 2018). In addition, the securities lending agent indemnifies Lifeco against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2019, Lifeco had loaned securities (which are included in investments) with a fair value of $7,023 million ($8,847 million at December 31, 2018).

NOTE 7 Funds Held by Ceding Insurers

At December 31, 2019, Lifeco had amounts on deposit of $8,714 million ($9,251 million at December 31, 2018) for funds held by ceding insurers on the balance sheets. Income and expenses arising from the agreements are included in net investment income on the statements of earnings.

The details of the funds on deposit for certain agreements where Lifeco has credit risk are as follows:

Carrying values and estimated fair values

	December 31, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	216	216	230	230
Bonds	6,445	6,445	6,925	6,925
Other assets	80	80	91	91
	6,741	6,741	7,246	7,246
Supporting:				
Reinsurance liabilities	6,537	6,537	6,992	6,992
Surplus	204	204	254	254
	6,741	6,741	7,246	7,246

Asset quality

The following table provides details of the carrying value of the bond portfolio by credit rating:

	December 31, 2019	December 31, 2018
AAA	601	609
AA	2,670	2,858
A	2,264	2,698
BBB	822	667
BB and lower	88	93
Total bonds	6,445	6,925

NOTE 8 Investments in Jointly Controlled Corporations and Associates

The carrying values of the investments in jointly controlled corporations and associates are as follows:

	December 31, 2019					December 31, 2018			
	Parjointco	Personal Capital	China AMC	Other	Total	Parjointco	China AMC	Other	Total
Carrying value, beginning of year	3,291	–	683	35	4,009	3,354	648	14	4,016
Acquisition	–	217	–	–	217	–	–	–	–
Investments	–	–	–	56	56	–	–	15	15
Share of earnings (losses)	193	(17)	30	5	211	57	29	8	94
Share of other comprehensive income (loss)	545	(6)	(40)	(1)	498	(36)	18	–	(18)
Dividends and distributions	(80)	–	(10)	(3)	(93)	(75)	(12)	–	(87)
Effects of changes in ownership and other	5	–	–	(1)	4	(9)	–	(2)	(11)
Carrying value, end of year	3,954	194	663	91	4,902	3,291	683	35	4,009

PARJOINTCO

At December 31, 2019, the Corporation held a 50% interest in Parjointco, a jointly controlled corporation. Parjointco held a 55.5% equity interest in Pargesa (same as at December 31, 2018), representing 75.4% of the voting rights.

At December 31, 2019, the net asset value of the Corporation's indirect interest in Pargesa is approximately $4,085 million. The carrying value of the investment in Pargesa is $3,954 million. For the year ended December 31, 2019, revenue of Pargesa was SF5,690 million (C$7,597 million) (SF6,174 million or C$8,178 million for the year ended December 31, 2018) and net earnings attributable to Pargesa's common shareholders was SF391 million (C$522 million) (SF361 million or C$478 million for the year ended December 31, 2018). Results reported by Pargesa are in accordance with IFRS 9. The Corporation's share of earnings in Parjointco includes an adjustment to account for Pargesa under IAS 39. Other financial information for Pargesa can be obtained from its publicly available information.

CHINA AMC

At December 31, 2019, IGM held 13.9% interest (same as December 31, 2018) in China AMC. China AMC is an asset management company established in Beijing, China. IGM has determined that it has significant influence and therefore accounts for its interest as an associate using the equity method. Significant influence arises from board representation, participating in the policy-making process, shared strategic initiatives including joint product launches and collaboration between management and investment teams.

Summarized financial information for China AMC is as follows:

	2019		2018	
[in millions]	Canadian dollars	Chinese renminbi	Canadian dollars	Chinese renminbi
Balance sheet at December 31[1]				
Assets	2,171	11,645	2,051	10,342
Liabilities	504	2,701	445	2,242
Comprehensive income for the years ended December 31				
Revenue	763	3,977	733	3,733
Net earnings attributable to common shareholders	230	1,201	224	1,140
Total comprehensive income	234	1,219	235	1,171

[1] Excludes fair value adjustments made at the time of acquisition of $3,248 million (RMB¥16,380 million).

NOTE 8 Investments in Jointly Controlled Corporations and Associates (continued)

PERSONAL CAPITAL

In January 2019, IGM invested an additional $67 million (US$50 million) in Personal Capital which increased its voting interest to 22.7%. IGM has determined that it has significant influence and therefore accounts for its interest as an associate using the equity method. Significant influence arises from its voting interest and board representation. The interest in Personal Capital was previously accounted for as an available-for-sale investment. The carrying value at the time of the acquisition of significant influence was $217 million. The reclassification of the investment from available for sale to an associate resulted in a gain recorded in net investment income.

As at December 31, 2019, IGM held a 24.8% equity interest in Personal Capital. IGM's equity earnings from Personal Capital include its proportionate share of Personal Capital's net loss adjusted by IGM's amortization of intangible assets that it recognized as a part of its investment in Personal Capital.

Summarized financial information for Personal Capital is as follows:

	2019	
	Canadian Dollars	U.S. Dollars
Balance sheet at December 31		
Assets	86	66
Liabilities	23	18
Comprehensive income for the year ended December 31		
Revenue	100	75
Net loss attributable to common shareholders	(56)	(43)
Total comprehensive loss	(56)	(43)

NOTE 9 Owner-Occupied Properties and Capital Assets

The carrying value and the changes in the carrying value of owner-occupied properties and capital assets are as follows:

	December 31, 2019			
	Right-of-use[1] assets	Owner-occupied properties	Capital assets	Total
Cost, beginning of year	–	902	1,509	2,411
Adoption of IFRS 16 on January 1, 2019 [Note 2]	560	–	–	560
Additions	125	37	146	308
Modifications	(21)	–	–	(21)
Disposal/retirements	–	(10)	(28)	(38)
Changes in foreign exchange rates and other	(16)	(20)	–	(36)
Cost, end of year	648	909	1,627	3,184
Accumulated amortization, beginning of year	–	(119)	(961)	(1,080)
Amortization and impairment	(94)	(12)	(117)	(223)
Disposal/retirements	–	–	11	11
Changes in foreign exchange rates and other	1	1	(9)	(7)
Accumulated amortization, end of year	(93)	(130)	(1,076)	(1,299)
Carrying value, end of year	555	779	551	1,885

[1] Right-of-use assets include leased properties and leased capital assets.

	December 31, 2018		
	Owner-occupied properties	Capital assets	Total
Cost, beginning of year	855	1,367	2,222
Additions	29	241	270
Disposal/retirements	–	(99)	(99)
Changes in foreign exchange rates and other	18	–	18
Cost, end of year	902	1,509	2,411
Accumulated amortization, beginning of year	(97)	(951)	(1,048)
Amortization and impairment	(22)	(116)	(138)
Disposal/retirements	–	80	80
Changes in foreign exchange rates and other	–	26	26
Accumulated amortization, end of year	(119)	(961)	(1,080)
Carrying value, end of year	783	548	1,331

The following table provides the carrying value of owner-occupied properties and capital assets by geographic location:

	December 31, 2019	December 31, 2018
Canada	1,055	759
United States	564	357
Europe	266	215
	1,885	1,331

NOTE 10 Other Assets

	December 31, 2019	December 31, 2018
Premiums in course of collection, accounts receivable and interest receivable	6,281	5,532
Client funds on deposit	892	618
Deferred acquisition costs and deferred selling commissions	750	705
Pension benefits [Note 25]	231	148
Income taxes receivable	248	228
Trading account assets	1,092	843
Finance leases receivable	405	410
Prepaid expenses	163	165
Other	231	469
	10,293	9,118

Total Other assets of $8,882 million as at December 31, 2019 ($7,837 million as at December 31, 2018) are to be realized within 12 months. This amount excludes deferred acquisition costs and deferred selling commissions, the changes in which are presented below.

DEFERRED ACQUISITION COSTS AND DEFERRED SELLING COMMISSIONS

The changes in the carrying value of the deferred acquisition costs and deferred selling commissions are as follows:

	December 31, 2019	December 31, 2018
Balance, beginning of year	705	638
Additions	189	145
Disposals	(36)	(35)
Amortization	(75)	(61)
Changes in foreign exchange rates and other	(33)	18
Balance, end of year	750	705

NOTE 11 Goodwill and Intangible Assets

GOODWILL

The carrying value and changes in the carrying value of goodwill are as follows:

	December 31, 2019			December 31, 2018		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Balance, beginning of year	11,169	(1,223)	9,946	10,713	(1,133)	9,580
Business acquisitions	41	–	41	331	–	331
Impairment [1]	–	(19)	(19)	–	–	–
Changes in foreign exchange rates and other	(112)	54	(58)	125	(90)	35
Balance, end of year	11,098	(1,188)	9,910	11,169	(1,223)	9,946

[1] In 2019, $19 million of the goodwill in Lifeco's Financial Services CGU was impaired as a result of the reinsurance transaction with Protective Life (Note 3).

INTANGIBLE ASSETS

The carrying value and changes in the carrying value of the intangible assets are as follows:

Indefinite life intangible assets

December 31, 2019	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,330	2,665	741	354	5,090
Business acquisitions	1	–	–	–	1
Changes in foreign exchange rates	(34)	(103)	–	–	(137)
Cost, end of year	1,297	2,562	741	354	4,954
Accumulated impairment, beginning of year	(140)	(1,101)	–	–	(1,241)
Changes in foreign exchange rates	7	50	–	–	57
Accumulated impairment, end of year	(133)	(1,051)	–	–	(1,184)
Carrying value, end of year	1,164	1,511	741	354	3,770

December 31, 2018	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,288	2,495	741	354	4,878
Changes in foreign exchange rates	42	170	–	–	212
Cost, end of year	1,330	2,665	741	354	5,090
Accumulated impairment, beginning of year	(132)	(1,019)	–	–	(1,151)
Changes in foreign exchange rates	(8)	(82)	–	–	(90)
Accumulated impairment, end of year	(140)	(1,101)	–	–	(1,241)
Carrying value, end of year	1,190	1,564	741	354	3,849

NOTE 11 Goodwill and Intangible Assets (continued)

Finite life intangible assets

December 31, 2019	Technology and software	Customer contract-related	Other	Total
Cost, beginning of year	1,944	1,059	236	3,239
Business acquisitions	2	2	–	4
Additions	292	11	25	328
Disposal	(25)	–	(3)	(28)
Changes in foreign exchange rates	(54)	(27)	(3)	(84)
Cost, end of year	2,159	1,045	255	3,459
Accumulated amortization, beginning of year	(1,138)	(587)	(134)	(1,859)
Amortization	(191)	(57)	(10)	(258)
Disposal	5	–	2	7
Changes in foreign exchange rates	41	11	1	53
Accumulated amortization, end of year	(1,283)	(633)	(141)	(2,057)
Carrying value, end of year	876	412	114	1,402

December 31, 2018	Technology and software	Customer contract-related	Other	Total
Cost, beginning of year	1,612	986	221	2,819
Additions	289	35	16	340
Disposal	(13)	–	(4)	(17)
Changes in foreign exchange rates	70	38	3	111
Other	(14)	–	–	(14)
Cost, end of year	1,944	1,059	236	3,239
Accumulated amortization, beginning of year	(935)	(505)	(125)	(1,565)
Amortization	(174)	(58)	(10)	(242)
Disposal	6	–	2	8
Changes in foreign exchange rates	(49)	(24)	(1)	(74)
Other	14	–	–	14
Accumulated amortization, end of year	(1,138)	(587)	(134)	(1,859)
Carrying value, end of year	806	472	102	1,380

NOTE 11 Goodwill and Intangible Assets (continued)

ALLOCATION TO CASH GENERATING UNITS

Goodwill and indefinite life intangible assets have been assigned to CGUs as follows:

	December 31, 2019			December 31, 2018		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
Lifeco						
Canada						
Group Customer	1,632	354	1,986	1,621	354	1,975
Individual Customer	2,808	619	3,427	2,791	619	3,410
Europe						
Insurance and Annuities	2,345	223	2,568	2,388	233	2,621
United States						
Financial Services	180	-	180	208	-	208
Asset Management	-	1,508	1,508	-	1,578	1,578
IGM						
IG Wealth Management	1,443	-	1,443	1,443	-	1,443
Mackenzie	1,251	1,003	2,254	1,251	1,003	2,254
Corporate	143	23	166	143	23	166
Other	108	40	148	101	39	140
	9,910	3,770	13,680	9,946	3,849	13,795

RECOVERABLE AMOUNT

Lifeco

For purposes of annual impairment testing, Lifeco allocates goodwill and indefinite life intangible assets to its CGUs. Any potential impairment of goodwill or indefinite life intangible assets is identified by comparing the recoverable amount to its carrying value. Recoverable amount is based on fair value less cost of disposal.

Fair value is initially assessed with reference to valuation multiples of comparable publicly traded financial institutions and previous business acquisition transactions. These valuation multiples may include price-to-earnings or price-to-book measures for life insurers and asset managers. This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs.

In the fourth quarter of 2019, Lifeco conducted its annual impairment testing of goodwill and indefinite life intangible assets based on the September 30, 2019 asset balances. It was determined that the recoverable amounts of CGUs were in excess of their carrying values and there was no evidence of significant impairment.

Any reasonable changes in assumptions and estimates used in determining the recoverable amounts of the CGUs are unlikely to cause the carrying values to exceed their recoverable amounts.

NOTE 11 Goodwill and Intangible Assets (continued)

IGM Financial

IGM tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of IGM's CGUs is based on the best available evidence of fair value less cost of disposal. Fair value is initially assessed with reference to valuation multiples of comparable publicly traded financial institutions and previous business acquisition transactions. These valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs.

The fair value less cost of disposal of IGM's CGUs was compared with the carrying amount and it was determined there was no impairment. Changes in assumptions and estimates used in determining the recoverable amounts of the CGUs can result in significant adjustments to the valuation of the CGUs.

NOTE 12 Segregated Funds and Other Structured Entities

Lifeco offers segregated fund products in Canada, the U.S. and Europe that are referred to as segregated funds, separate accounts and unit-linked funds in the respective markets. These funds are contracts issued by insurers to segregated fund policyholders where the benefit is directly linked to the performance of the investments, the risks or rewards of the fair value movements and net investment income is realized by the segregated fund policyholders. The segregated fund policyholders are required to select the segregated funds that hold a range of underlying investments. While Lifeco has legal title to the investments, there is a contractual obligation to pass along the investment results to the segregated fund policyholder and Lifeco segregates these investments from those of the corporation itself.

In Canada and the U.S., the segregated fund and separate account assets are legally separated from the general assets of Lifeco under the terms of the policyholder agreement and cannot be used to settle obligations of Lifeco. In Europe, the assets of the funds are functionally and constructively segregated from those of Lifeco. As a result of the legal and constructive arrangements of these funds, the assets and liabilities of these funds are presented as investments on account of segregated fund policyholders and with an equal liability titled insurance and investment contracts on account of segregated fund policyholders in the balance sheets.

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, Lifeco has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are $1,147 million at December 31, 2019 ($864 million at December 31, 2018).

Within the statements of earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the balance sheets. As these amounts do not directly impact the revenues and expenses of Lifeco, these amounts are not included separately in the statements of earnings.

NOTE 12 Segregated Funds and Other Structured Entities (continued)

SEGREGATED FUNDS AND GUARANTEE EXPOSURE

Lifeco offers retail segregated fund products, unitized with profits products and variable annuity products that provide for certain guarantees that are tied to the fair values of the investment funds. While these products are similar to mutual funds, there is a key difference from mutual funds as the segregated funds have certain guarantee features that protect the segregated fund policyholder from market declines in the underlying investments. These guarantees are Lifeco's primary exposure on these funds. Lifeco accounts for these guarantees within insurance and investment contract liabilities in the financial statements. In addition to Lifeco's exposure on the guarantees, the fees earned by Lifeco on these products are impacted by the fair value of these funds.

In Canada, Lifeco offers retail segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits and guaranteed minimum accumulation on maturity benefits.

In the U.S., Lifeco offers group variable annuities with guaranteed minimum death benefits and guaranteed minimum withdrawal benefits through Great-West Life & Annuity. For the standalone guaranteed minimum death benefits business, most are a return of premium on death with the guarantee expiring at age 70.

In Europe, Lifeco offers unitized with profits products through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products, but include pooling of policyholders' funds and minimum credited interest rates.

Lifeco also offers guaranteed minimum withdrawal benefits products in Canada, the U.S. and Germany, and previously offered guaranteed minimum withdrawal benefits products in Ireland. Certain guaranteed minimum withdrawal benefits products offered by Lifeco offer levels of death and maturity guarantees. At December 31, 2019, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was $3,332 million ($4,169 million at December 31, 2018). The decrease was primarily due to U.S. business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019.

The following presents further details of the investments, determined in accordance with the relevant statutory reporting requirements of each region of Lifeco's operations, on account of segregated fund policyholders:

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	December 31, 2019	December 31, 2018
Cash and cash equivalents	12,501	13,458
Bonds	44,973	42,142
Mortgage loans	2,670	2,746
Shares and units in unit trusts	104,330	89,853
Mutual funds	55,779	50,956
Investment properties	12,986	12,319
	233,239	211,474
Accrued income	373	380
Other liabilities	(3,737)	(3,191)
Non-controlling mutual fund interest	1,147	864
	231,022	209,527

NOTE 12 Segregated Funds and Other Structured Entities (continued)

INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	Years ended December 31,	
	2019	2018
Balance, beginning of year	209,527	217,357
Additions (deductions):		
Policyholder deposits	24,685	24,475
Net investment income	3,331	3,611
Net realized capital gains on investments	4,265	4,876
Net unrealized capital gains (losses) on investments	19,658	(16,757)
Unrealized gains (losses) due to changes in foreign exchange rates	(6,539)	5,472
Policyholder withdrawals	(24,721)	(26,271)
Business acquisition	–	950
Segregated fund investment in General Fund	(4)	69
General Fund investment in segregated fund	105	(219)
Net transfer from General Fund	23	21
Non-controlling mutual fund interest	283	(738)
Transfer from assets held for sale	409	–
Assets held for sale [Note 4]	–	(3,319)
	21,495	(7,830)
Balance, end of year	231,022	209,527

INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	Years ended December 31,	
	2019	2018
Net investment income	3,331	3,611
Net realized capital gains on investments	4,265	4,876
Net unrealized capital gains (losses) on investments	19,658	(16,757)
Unrealized gains (losses) due to changes in foreign exchange rates	(6,539)	5,472
Total	20,715	(2,798)
Change in insurance and investment contract liabilities on account of segregated fund policyholders	20,715	(2,798)
Net	–	–

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS (by fair value hierarchy level)

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [1]	146,861	73,173	13,988	234,022

[1] Excludes other liabilities, net of other assets, of $3,000 million.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [1]	131,603	67,199	13,235	212,037
Investments on account of segregated fund policyholders held for sale [2]	3,297	5	9	3,311
Total investments on account of segregated fund policyholders measured at fair value	134,900	67,204	13,244	215,348

[1] Excludes other liabilities, net of other assets, of $2,510 million.

[2] Excludes other assets, net of other liabilities, of $8 million.

In 2019 certain foreign equity holdings valued at $153 million were transferred from Level 1 to Level 2 ($1,842 million were transferred from Level 2 to Level 1 at December 31, 2018), primarily based on Lifeco's change in use of inputs in addition to quoted prices in active markets for certain foreign equity holdings at year-end. Level 2 assets include those assets where fair value is not available from normal market pricing sources where inputs are utilized in addition to quoted prices in active markets and where Lifeco does not have access to the underlying asset details within an investment fund.

NOTE 12 Segregated Funds and Other Structured Entities (continued)

As at December 31, 2019, $8,471 million ($7,770 million at December 31, 2018) of the segregated funds were invested in funds managed by IG Wealth Management and Mackenzie Investments, subsidiaries of IGM and related parties.

The following table presents additional information about Lifeco's investments on account of segregated fund policyholders for which Lifeco has utilized Level 3 inputs to determine fair value:

	December 31, 2019			December 31, 2018		
	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total
Balance, beginning of year						
As previously reported	13,235	9	13,244	12,572	–	12,572
Change in accounting policy [1]	136	–	136	–	–	–
Restated balance, beginning of year	13,371	9	13,380	12,572	–	12,572
Total gains (losses) included in segregated fund investment income	141	(1)	140	404	–	404
Purchases	760	–	760	651	–	651
Sales	(284)	(8)	(292)	(425)	–	(425)
Transfers into Level 3	–	–	–	51	–	51
Transfers out of Level 3	–	–	–	(9)	–	(9)
Transfers to assets held for sale	–	–	–	(9)	9	–
Balance, end of year	13,988	–	13,988	13,235	9	13,244

[1] The segregated funds adopted IFRS 16, which resulted in equal and offsetting right-of-use assets and lease liabilities of $136 million being recorded in investment properties and other liabilities within investments on account of segregated fund policyholders as of January 1, 2019. The adoption of IFRS 16 had no net impact on investments on account of segregated fund policyholders as of January 1, 2019.

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

In addition to the segregated funds, Lifeco has interests in a number of structured unconsolidated entities including mutual funds, open-ended investment companies, and unit trusts. These entities are created as investment strategies for its unit holders based on the directive of each individual fund.

Some of these funds are managed by related parties of Lifeco and Lifeco receives management fees related to these services. Management fees can be variable due to the performance of factors, such as markets or industries, in which the fund invests. Fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management, which is affected by prevailing market conditions, and the inflow and outflow of client assets.

Factors that could cause assets under management and fees to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue.

Fee income earned by Lifeco resulting from Lifeco's interests in segregated funds and other structured entities was $4,919 million for the year ended December 31, 2019 ($4,786 million in 2018).

Included within other assets (Note 10) at December 31, 2019 is $957 million ($733 million at December 31, 2018) of investments by Lifeco in bonds and shares of Putnam-sponsored funds and $135 million ($110 million at December 31, 2018) of investments in shares of sponsored unit trusts in Europe.

NOTE 13 Insurance and Investment Contract Liabilities

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

	December 31, 2019			December 31, 2018		
	Gross liability	Reinsurance assets [1]	Net	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	174,521	20,580	153,941	166,720	6,126	160,594
Investment contract liabilities	1,656	127	1,529	1,711	–	1,711
	176,177	20,707	155,470	168,431	6,126	162,305

[1] Includes reinsurance assets recognized upon the completion of the reinsurance transaction with Protective Life (Note 3).

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of insurance and investment contract liabilities of Lifeco is as follows:

	December 31, 2019			December 31, 2018		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Participating						
Canada	42,271	(247)	42,518	38,078	(351)	38,429
United States	11,329	12	11,317	11,871	14	11,857
Europe	1,019	–	1,019	978	–	978
Non-participating						
Canada	32,668	498	32,170	30,174	500	29,674
United States	32,360	15,091	17,269	31,042	271	30,771
Europe	56,530	5,353	51,177	56,288	5,692	50,596
	176,177	20,707	155,470	168,431	6,126	162,305

The composition of the assets supporting liabilities and equity of Lifeco is as follows:

December 31, 2019	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
Canada	19,484	9,655	6,142	2,472	4,518	42,271
United States	5,128	626	–	–	5,575	11,329
Europe	716	20	63	12	208	1,019
Non-participating liabilities						
Canada	20,270	4,111	2,237	407	5,643	32,668
United States	14,311	2,678	–	–	15,371	32,360
Europe	35,546	5,442	299	2,672	12,571	56,530
Other, including segregated funds	15,630	902	902	119	231,894	249,447
Total equity	3,943	834	732	205	19,829	25,543
Total carrying value	115,028	24,268	10,375	5,887	295,609	451,167
Fair value	117,000	25,146	10,367	5,887	295,609	454,009

December 31, 2018	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
Canada	18,044	9,145	5,397	1,908	3,584	38,078
United States	5,140	749	–	–	5,982	11,871
Europe	708	24	68	18	160	978
Non-participating liabilities						
Canada	19,204	3,845	1,916	196	5,013	30,174
United States	25,324	4,993	–	–	725	31,042
Europe	35,174	4,511	191	2,795	13,617	56,288
Other, including segregated funds	15,504	1,038	940	99	214,279	231,860
Total equity	5,764	709	778	202	19,945	27,398
Total carrying value	124,862	25,014	9,290	5,218	263,305	427,689
Fair value	125,759	25,411	9,229	5,218	263,305	428,922

NOTE 13 Insurance and Investment Contract Liabilities (continued)

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

CHANGE IN INSURANCE CONTRACT LIABILITIES

The change in insurance contract liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	Participating			Non-participating			
December 31, 2019	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
Balance, beginning of year	50,927	(337)	51,264	115,793	6,463	109,330	160,594
Impact of new business	59	–	59	5,339	(266)	5,605	5,664
Normal change in in-force business	4,138	25	4,113	1,784	645	1,139	5,252
Management actions and changes in assumptions	67	77	(10)	(117)	(73)	(44)	(54)
Business movement from/to external parties	–	–	–	(176)	14,802	(14,978)	(14,978)
Impact of foreign exchange rate changes	(572)	–	(572)	(2,721)	(756)	(1,965)	(2,537)
Balance, end of year	54,619	(235)	54,854	119,902	20,815	99,087	153,941

	Participating			Non-participating			
December 31, 2018	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
Balance, beginning of year	48,856	(341)	49,197	110,668	5,386	105,282	154,479
Impact of new business	24	–	24	6,680	169	6,511	6,535
Normal change in in-force business	1,413	7	1,406	(6,553)	(243)	(6,310)	(4,904)
Management actions and changes in assumptions	(29)	(5)	(24)	(700)	25	(725)	(749)
Business movement from/to external parties	–	–	–	(134)	(2)	(132)	(132)
Retirement Advantage acquisition	–	–	–	2,572	931	1,641	1,641
Transfer of liabilities to held for sale [Note 4]	(281)	–	(281)	(589)	–	(589)	(870)
Impact of foreign exchange rate changes	944	2	942	3,849	197	3,652	4,594
Balance, end of year	50,927	(337)	51,264	115,793	6,463	109,330	160,594

Under IFRS, movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in the in-force business above.

2019

In July 2019, the Canadian Actuarial Standards Board published revised standards for the valuation of insurance contract liabilities, with an effective date of October 15, 2019. The revised standards include decreases to ultimate reinvestment rates and revised calibration criteria for stochastic risk-free interest rates.

In 2019, the major contributor to the decrease in net insurance contract liabilities was the business movement to external parties of $14,978 million, which includes the transfer to Protective Life, and the net impact of foreign exchange rate changes of $2,537 million. This was partially offset by increases due to the impact of new business of $5,664 million, and normal change in the in-force business of $5,252 million.

Net non-participating insurance contract liabilities decreased by $44 million in 2019 due to management actions and assumption changes including a $241 million decrease in Europe and Reinsurance, partially offset by a $145 million increase in Canada and a $52 million increase in the United States.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

The increase in Canada was primarily due to updated policyholder behaviour assumptions of $254 million, and updated longevity assumptions of $54 million partially offset by decreases due to updated morbidity assumptions of $169 million and updated economic assumptions of $6 million, which includes the net impact of new standards.

The decrease in Europe was primarily due to updated longevity assumptions of $299 million, and updated economic assumptions of $101 million, which includes the net impact of new standards, partially offset by increases due to updated life mortality assumptions of $80 million, and updated expenses and tax assumptions of $59 million.

The increase in the United States was primarily due to updated expenses and tax assumptions of $45 million, and updated life mortality assumptions of $43 million partially offset by decreases due to updated economic assumptions of $34 million, which includes the net impact of new standards.

Net participating insurance contract liabilities decreased by $10 million in 2019 due to management actions and assumption changes. The decrease was primarily due to updated provisions for future policyholder dividends of $2,232 million, updated expenses and tax assumptions of $535 million, and modelling refinements of $198 million. This was partially offset by increases due to updated economic assumptions of $1,884 million, updated policyholder behaviour assumptions of $935 million and updated life mortality assumptions of $153 million.

2018

In 2018, the major contributors to the increase in net insurance contract liabilities were the impact of new business of $6,535 million, the acquisition of Retirement Advantage of $1,641 million and the net impact of foreign exchange rate changes of $4,594 million. This was partially offset by the decrease due to normal change in the in-force business of $4,904 million, the transfer of U.K. heritage business to Scottish Friendly of $870 million and management actions and changes in assumptions of $749 million.

Net non-participating insurance contract liabilities decreased by $725 million in 2018 due to Lifeco's management actions and assumption changes including a $562 million decrease in Europe and Reinsurance, a $107 million decrease in Canada and a $56 million decrease in the United States.

The decrease in Canada was primarily due to updated economic assumptions of $197 million, updated provision for claims of $19 million and updated provision for experience rating refunds of $10 million, partially offset by increases due to updated morbidity assumptions of $62 million, updated policyholder behaviour assumptions of $46 million and updated life mortality assumptions of $10 million.

The decrease in Europe was primarily due to updated longevity assumptions of $372 million, updated life mortality assumptions of $129 million, modelling refinements of $41 million, updated economic assumptions of $39 million, updated morbidity assumptions of $25 million, and updated expense and tax assumptions of $21 million, partially offset by increases due to updated policyholder behaviour assumptions of $65 million.

The decrease in the United States was primarily due to updated policyholder behaviour assumptions of $63 million, updated life mortality assumptions of $16 million and updated longevity assumptions of $15 million, partially offset by increases due to modelling refinements of $21 million and updated economic assumptions of $13 million.

Net participating insurance contract liabilities decreased by $24 million in 2018 due to Lifeco's management actions and assumption changes. The decrease was primarily due to modelling refinements of $229 million, expense and tax assumptions of $133 million and updated life mortality assumptions of $5 million, partially offset by increases due to updated provisions for future policyholder dividends of $232 million, lower investment returns of $101 million and updated policyholder behaviour assumptions of $8 million.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

			December 31, 2019	December 31, 2018
	Gross liability	Reinsurance assets	Net	Net
Balance, beginning of year	1,711	–	1,711	1,841
Normal change in in-force business	(87)	38	(125)	(190)
Investment experience	103	(23)	126	(26)
Management actions and changes in assumptions	(4)	–	(4)	15
Business movement from/to external parties	–	116	(116)	–
Transfer of liabilities to held for sale [Note 4]	–	–	–	(27)
Impact of foreign exchange rate changes	(67)	(4)	(63)	98
Balance, end of year	1,656	127	1,529	1,711

The carrying value of investment contract liabilities approximates their fair value. No investment contract liabilities were reinsured in 2018.

GROSS PREMIUM INCOME

	December 31, 2019	December 31, 2018
Direct premiums	25,398	26,062
Assumed reinsurance premiums	17,847	13,901
Total	43,245	39,963

GROSS POLICYHOLDER BENEFITS

	December 31, 2019	December 31, 2018
Direct	19,643	17,830
Assumed reinsurance	18,126	14,527
Total	37,769	32,357

ACTUARIAL ASSUMPTIONS

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

The methods for arriving at these valuation assumptions are outlined below:

Actuarial assumptions	Methods
Mortality	A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Improvement scales for life insurance and annuitant mortality are updated periodically based on population and industry studies, product-specific considerations, as well as professional guidance. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. Annuitant mortality is also studied regularly and the results are used to modify established industry experience annuitant mortality tables.
Morbidity	Lifeco uses industry-developed experience tables modified to reflect emerging Lifeco experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.
Property and casualty reinsurance	Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.
Investment returns	The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 22).
Expenses	Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the CALM as inflation is assumed to be correlated with new money interest rates.
Policy termination	Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco's most significant exposures are in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of term for renewable term policies in Canada and Reinsurance. Industry experience has guided Lifeco's assumptions for these products as Lifeco's own experience is very limited.
Utilization of elective policy options	There are a wide range of elective options embedded in the policies issued by Lifeco. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on Lifeco or industry experience when it exists and, when not, on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.
Policyholder dividends and adjustable policy features	Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is Lifeco's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability on shareholders' earnings is reflected in the changes in best estimate assumptions above.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

RISK MANAGEMENT

Insurance risk

Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions, including mortality, persistency, longevity, morbidity, expense variations and investment returns.

Lifeco is in the business of accepting risk associated with insurance contract liabilities. Lifeco's objective is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of its underwriting strategy guidelines, and through the use of reinsurance arrangements.

The following table provides information about Lifeco's insurance contract liabilities' sensitivities to its management's best estimate of the approximate impact as a result of changes in assumptions used to determine Lifeco's liability associated with these contracts.

	Increase (decrease) in net earnings	
	2019	2018
Mortality – 2% increase	(279)	(270)
Annuitant mortality – 2% decrease	(601)	(457)
Morbidity – 5% adverse change	(253)	(271)
Investment returns		
Parallel shift in yield curve		
1% increase	–	–
1% decrease	–	–
Change in interest rates		
1% increase	175	115
1% decrease	(619)	(465)
Change in equity markets		
10% increase	87	73
10% decrease	(129)	(266)
Change in best estimate return assumptions for equities		
1% increase	509	476
1% decrease	(585)	(539)
Expenses – 5% increase	(125)	(128)
Policy termination and renewal – 10% adverse change	(813)	(649)

Concentration risk may arise from geographic regions, accumulation of risks and market risk. The concentration of insurance risk before and after reinsurance by geographic region is described below.

	December 31, 2019			December 31, 2018		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Canada	74,939	251	74,688	68,252	149	68,103
United States	43,689	15,103	28,586	42,913	285	42,628
Europe	57,549	5,353	52,196	57,266	5,692	51,574
	176,177	20,707	155,470	168,431	6,126	162,305

Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds-withheld basis where Lifeco retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

NOTE 14 Obligations to Securitization Entities

IGM securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC)-sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as IGM retains prepayment risk and certain elements of credit risk. Accordingly, IGM has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as obligations to securitization entities which are carried at amortized cost.

IGM earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, IGM enters into a swap transaction whereby IGM pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of $1 million at December 31, 2019 (a positive fair value of $5 million in 2018).

Under the NHA MBS and CMB Programs, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, IGM has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP trusts have no recourse to IGM's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

	December 31, 2019			December 31, 2018		
	Securitized mortgages	Obligations to securitization entities	Net	Securitized mortgages	Obligations to securitization entities	Net
Carrying value						
NHA MBS and CMB Programs	3,891	3,939	(48)	4,247	4,251	(4)
Bank-sponsored ABCP	2,939	2,975	(36)	3,102	3,119	(17)
Total	6,830	6,914	(84)	7,349	7,370	(21)
Fair value	6,908	6,997	(89)	7,405	7,437	(32)

The carrying value of obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation using an effective interest method.

NOTE 15 Debentures and Other Debt Instruments

	December 31, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
DEBENTURES				
Power Financial				
6.90% debentures due March 11, 2033, unsecured	250	343	250	327
Lifeco				
4.65% debentures due August 13, 2020, unsecured	500	508	500	516
2.50% debentures due April 18, 2023 (€500 million), unsecured	728	788	778	837
1.75% debentures due December 7, 2026 (€500 million), unsecured	725	785	774	781
3.337% debentures due February 28, 2028, unsecured	498	526	497	502
6.40% subordinated debentures due December 11, 2028, unsecured	100	128	100	126
6.74% debentures due November 24, 2031, unsecured	194	278	194	261
6.67% debentures due March 21, 2033, unsecured	393	557	393	522
6.625% deferrable debentures due November 15, 2034 (US$175 million), unsecured (redeemed during 2019)	–	–	235	266
5.998% debentures due November 16, 2039, unsecured	342	487	342	442
7.529% capital trust debentures due June 30, 2052 (face value of $150 million), unsecured	159	221	159	209
IGM Financial				
3.44% debentures due January 26, 2027, unsecured	400	413	400	397
6.65% debentures due December 13, 2027, unsecured	125	155	125	153
7.45% debentures due May 9, 2031, unsecured	150	205	150	197
7.00% debentures due December 31, 2032, unsecured	175	236	175	226
7.11% debentures due March 7, 2033, unsecured	150	204	150	195
6.00% debentures due December 10, 2040, unsecured	200	264	200	244
4.56% debentures due January 25, 2047, unsecured	200	227	200	206
4.115% debentures due December 9, 2047, unsecured	250	265	250	239
4.174% debentures due July 13, 2048, unsecured	200	214	200	193
4.206% debentures due March 21, 2050, unsecured	250	271	–	–
Debentures of IGM held by Lifeco as investments	(101)	(119)	(86)	(97)
Total debentures	5,888	6,956	5,986	6,742
OTHER DEBT INSTRUMENTS				
Lifeco				
Commercial paper and other short-term debt instruments with interest rates from 1.828% to 2.089% (2.511% to 2.693% at December 31, 2018), unsecured	130	130	135	135
Revolving credit facility with interest equal to LIBOR plus 0.70% (US$230 million)(US$250 million at December 31, 2018), unsecured	299	299	340	340
Senior notes due May 17, 2028, bearing an interest rate of 4.047% (US$300 million), unsecured	388	430	405	415
Senior notes due June 3, 2047, bearing an interest rate of 4.15% (US$700 million), unsecured	894	993	934	888
Senior notes due May 17, 2048, bearing an interest rate of 4.581% (US$500 million), unsecured	643	749	673	685
Other subsidiaries				
Other various debt instruments, secured [1]	8	8	19	19
Total other debt instruments	2,362	2,609	2,506	2,482
	8,250	9,565	8,492	9,224

[1] Secured by the assets of Other subsidiaries; the debt instruments are non-recourse to the Corporation.

NOTE 15 Debentures and Other Debt Instruments (continued)

LIFECO

On December 10, 2019, Great-West Life & Annuity Insurance Capital, LP redeemed all $232 million (US$175 million) aggregate principal amount 6.625% deferrable debentures due November 15, 2034 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest up to but excluding the redemption date.

On February 28, 2018, Lifeco issued $500 million of 10-year 3.337% debentures at par, maturing on February 28, 2028. Interest on the debentures is payable semi-annually in arrears on February 28 and August 28, commencing August 28, 2018 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to November 28, 2027 in whole or in part at the greater of the Canada Yield Price and par, and on or after November 28, 2027 in whole or in part at par, together in each case with accrued and unpaid interest.

On May 17, 2018, Great-West Lifeco Finance 2018, LP issued $384 million (US$300 million) 4.047% senior notes due May 17, 2028 and $640 million (US$500 million) 4.581% senior notes due May 17, 2048. The tranches of senior notes are fully and unconditionally guaranteed by Lifeco.

Capital Trust Debentures

Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $150 million of Canada Life Capital Securities – Series B (CLiCS – Series B), the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $150 million.

Distributions and interest on the capital trust debentures are classified as financing charges in the statements of earnings (Note 24). The fair value for capital trust securities is determined by the bid-ask price.

Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time.

IGM FINANCIAL

On March 20, 2019, IGM issued $250 million of 4.206% debentures maturing March 21, 2050. The net proceeds were used by IGM to fund the redemption, on April 30, 2019, of its issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B for $150 million, and for general corporate purposes.

On March 7, 2018, IGM's 6.58% $150 million debentures matured at their principal amount together with accrued interest.

On July 11, 2018, IGM issued $200 million of 4.174% debentures maturing July 13, 2048. Interest on debentures is payable semi-annually in arrears on January 13 and July 13, commencing January 13, 2019, until the date on which the debentures are repaid. The debentures are redeemable at any time prior to January 13, 2048 in whole or in part at the greater of the Canada Yield Price and par, and on or after January 13, 2048 in whole or in part at par, together in each case with accrued and unpaid interest. On August 10, 2018, the net proceeds were used by IGM, together with a portion of its existing internal cash resources, to fund the early redemption of all of its $375 million 7.35% debentures due April 8, 2019. A premium of $11 million was paid on the early redemption and was recognized within financing charges in the statements of earnings.

CHANGES IN DEBENTURES AND OTHER DEBT INSTRUMENTS

The table below details changes in the Corporation's debentures and other debt instruments arising from financing activities, including both cash and non-cash changes.

	December 31, 2019	December 31, 2018
Balance, beginning of the year	8,492	8,128
Issue of debentures and senior notes	250	1,712
Redemption of debentures	(232)	(1,621)
Increase in other debt instruments	1	38
Decrease in other debt instruments	(39)	(1)
Changes in foreign exchange rates and other	(222)	236
Balance, end of year	8,250	8,492

NOTE 15 Debentures and Other Debt Instruments (continued)

The principal repayments on debentures and other debt instruments in each of the next five years and thereafter are as follows:

2020	937
2021	–
2022	–
2023	730
2024	–
Thereafter	6,623

NOTE 16 Other Liabilities

	December 31, 2019	December 31, 2018
Accounts payable	3,785	3,644
Bank overdraft	379	457
Dividends and interest payable	462	472
Income taxes payable	466	457
Deferred income reserves	380	441
Deposits and certificates	886	622
Funds held under reinsurance contracts	1,433	1,367
Pension and other post-employment benefits [Note 25]	1,897	1,676
Lease liabilities	682	–
Limited-life fund units	125	37
Other	1,975	1,787
	12,470	10,960

Total Other liabilities of $7,963 million as at December 31, 2019 ($7,471 million as at December 31, 2018) are expected to be settled within 12 months.

LEASE LIABILITIES

The table below details changes in the Corporation's lease liabilities for the year ended December 31, 2019.

	December 31, 2019
Initial lease liabilities, January 1, 2019 [Note 2]	661
Additions	136
Modifications	(22)
Lease payments	(100)
Interest	27
Change in foreign exchange rates and other	(20)
Lease liabilities, end of year	682

The table below presents the contractual undiscounted cash flows for lease obligations in each of the next five years and thereafter:

2020	111
2021	99
2022	83
2023	67
2024	63
Thereafter	447
Total undiscounted lease liabilities at December 31, 2019	870

NOTE 17 Income Taxes

INCOME TAXES

The components of income tax expense recognized in the statements of earnings are:

	Years ended December 31,	
	2019	2018
Current taxes	399	538
Deferred taxes		
Origination and reversal of temporary differences	(2)	50
Tax expense arising from unrecognized tax losses and tax credits	217	16
Effect of change in tax rates or imposition of new taxes and other	(13)	(2)
	202	64
	601	602

The following table shows current and deferred taxes relating to items not recognized in the statements of earnings:

	December 31, 2019		December 31, 2018	
	Other comprehensive income	Equity	Other comprehensive income	Equity
Current taxes (recovery)	4	78	(2)	–
Deferred taxes (recovery)	(20)	20	(36)	(16)
	(16)	98	(38)	(16)

EFFECTIVE INCOME TAX RATE

The Corporation's effective income tax rate is derived as follows:

	Years ended December 31,	
	2019	2018
	%	%
Combined statutory Canadian federal and provincial tax rates	26.6	26.7
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(4.5)	(5.2)
Lower effective tax rates on income not subject to tax in Canada	(8.4)	(7.5)
Share of earnings of investments in jointly controlled corporations and associates	(1.4)	(0.5)
Impact of rate changes on deferred taxes	(0.3)	–
Other [1]	3.9	0.9
Effective income tax rate	15.9	14.4

[1] Includes the impact of a decrease in the recognized deferred income tax asset of one of Lifeco's subsidiaries due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses which resulted in a $199 million charge and increased the effective income tax rate by 5.3%. This was partially offset by a $101 million benefit due to the resolution of an outstanding issue with a foreign tax authority which reduced the effective income tax rate by 2.7%.

NOTE 17 Income Taxes (continued)

DEFERRED TAXES

Composition and changes in net deferred taxes are as follows:

For the year ended December 31, 2019	Insurance and investment contract liabilities	Investments	Loss carry forwards	Intangible assets	Defined benefit plans	Tax credits and other	Total
Balance, beginning of year	(1,387)	(363)	1,393	(760)	354	312	(451)
Recognized in statements of earnings	362	(170)	(244)	(61)	(23)	(66)	(202)
Recognized in statements of comprehensive income	–	(25)	–	–	53	(8)	20
Recognized in statements of changes in equity	(20)	–	–	–	–	–	(20)
Business acquisitions	–	–	–	(1)	–	–	(1)
Foreign exchange rate changes and other	62	21	(48)	16	(15)	(36)	–
Balance, end of year	(983)	(537)	1,101	(806)	369	202	(654)

For the year ended December 31, 2018	Insurance and investment contract liabilities	Investments	Loss carry forwards	Intangible assets	Defined benefit plans	Tax credits and other	Total
Balance, beginning of year	(976)	(602)	1,147	(682)	361	262	(490)
Recognized in statements of earnings	(395)	223	150	(63)	(14)	35	(64)
Recognized in statements of comprehensive income	–	40	–	–	(5)	1	36
Recognized in statements of changes in equity	9	–	–	–	–	7	16
Business acquisitions	41	–	–	–	–	(8)	33
Foreign exchange rate changes and other	(66)	(24)	96	(15)	12	15	18
Balance, end of year	(1,387)	(363)	1,393	(760)	354	312	(451)

	December 31, 2019	December 31, 2018
Presented on the balance sheets as follows:		
Deferred tax assets	775	1,066
Deferred tax liabilities	(1,429)	(1,517)
	(654)	(451)

Management of the Corporation and of its subsidiaries assess the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2019 are recoverable.

At December 31, 2019, a deferred tax asset of $1,065 million ($1,357 million at December 31, 2018) is recognized by Lifeco on tax loss carry forwards totalling $6,832 million ($8,568 million in 2018). Of this amount, $5,814 million expires between 2020 and 2039, while $1,018 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

A subsidiary of Lifeco has had a history of losses. The subsidiary has a net deferred tax asset balance of $478 million (US$367 million) as at December 31, 2019 composed principally of net operating losses and future deductions related to goodwill. During the year ended December 31, 2019, management of Lifeco determined that a $199 million (US$151 million) decrease in the recognized deferred income tax asset is appropriate due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses generated in the earliest loss years. The deferred income tax asset decrease resulted in a charge to income tax expense of $199 million (US$151 million) in the statement of earnings. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income to utilize the unused United States losses and deductions for which a deferred tax asset has been recognized.

NOTE 17 Income Taxes (continued)

As at December 31, 2019, the Corporation and its subsidiaries have non-capital losses of $1,757 million ($531 million in 2018) available to reduce future taxable income for which the benefits have not been recognized. Of this amount, $1,738 million expires from 2020 to 2039, while $19 million has no expiry date. In addition, the Corporation and its subsidiaries have capital loss carry forwards of $153 million ($151 million in 2018) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

As at December 31, 2019, the Corporation and its subsidiaries have deductible temporary differences of $292 million ($194 million in 2018) for which the benefits have not been recognized. As at December 31, 2019 and 2018, no deferred tax liability was recognized in respect to temporary differences associated with investments in subsidiaries and jointly controlled corporations as the Corporation and its subsidiaries are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTE 18 Stated Capital

AUTHORIZED

The authorized capital of Power Financial consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Second Preferred Shares, issuable in series; and an unlimited number of common shares.

ISSUED AND OUTSTANDING

	December 31, 2019		December 31, 2018	
	Number of shares	Stated capital	Number of shares	Stated capital
		$		$
First Preferred Shares (perpetual)				
Series A [i]	4,000,000	100	4,000,000	100
Series D [ii]	6,000,000	150	6,000,000	150
Series E [ii]	8,000,000	200	8,000,000	200
Series F [ii]	6,000,000	150	6,000,000	150
Series H [ii]	6,000,000	150	6,000,000	150
Series I [ii]	8,000,000	200	8,000,000	200
Series K [ii]	10,000,000	250	10,000,000	250
Series L [ii]	8,000,000	200	8,000,000	200
Series O [ii]	6,000,000	150	6,000,000	150
Series P [ii]	8,965,485	224	8,965,485	224
Series Q [ii]	2,234,515	56	2,234,515	56
Series R [ii]	10,000,000	250	10,000,000	250
Series S [ii]	12,000,000	300	12,000,000	300
Series T [ii]	8,000,000	200	8,000,000	200
Series V [ii]	10,000,000	250	10,000,000	250
		2,830		2,830
Common Shares				
Balance, beginning of year	714,096,479	833	713,871,479	826
Issued under Stock Option Plan	–	–	225,000	7
Substantial issuer bid				
Issuance through effect of Qualifying Holdco Alternative	467,839,296	1,466	–	–
Cancellation of shares	(467,839,296)	(910)	–	–
Purchase for cancellation	(49,999,973)	(97)	–	–
Balance, end of year	664,096,506	1,292	714,096,479	833

First Preferred Shares

[i] The Series A First Preferred Shares are entitled to a quarterly cumulative dividend, at a floating rate equal to one quarter of 70% of the average prime rates quoted by two major Canadian chartered banks and are redeemable at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

NOTE 18 Stated Capital (continued)

[ii] The following First Preferred Shares series are entitled to non-cumulative preferential cash dividends payable quarterly. The Corporation may redeem for cash the First Preferred Shares in whole or in part, at the Corporation's option, with all declared and unpaid dividends to, but excluding, the date of redemption. The dividends and redemption terms are as follows:

First Preferred Shares		Cash dividends payable quarterly	Earliest issuer redemption date	Redemption price
		($/share)		($/share)
Non-cumulative, fixed rate				
Series D,	5.50%	0.343750	Currently redeemable	25.00
Series E,	5.25%	0.328125	Currently redeemable	25.00
Series F,	5.90%	0.368750	Currently redeemable	25.00
Series H,	5.75%	0.359375	Currently redeemable	25.00
Series I,	6.00%	0.375000	Currently redeemable	25.00
Series K,	4.95%	0.309375	Currently redeemable	25.00
Series L,	5.10%	0.318750	Currently redeemable	25.00
Series O,	5.80%	0.362500	Currently redeemable	25.00
Series R,	5.50%	0.343750	Currently redeemable	25.50
Series S,	4.80%	0.300000	Currently redeemable	25.75
Series V,	5.15%	0.321875	July 31, 2022	26.00
Non-cumulative, 5-year rate reset [1]				
Series P,	2.31%	0.144125	January 31, 2021	25.00
Series T,	4.22% [2]	0.263438	January 31, 2024	25.00
Non-cumulative, variable rate				
Series Q,	3-month Government of Canada Treasury Bill + 1.60% [3]	Variable	January 31, 2021	25.00

[1] The dividend rate will reset on the earliest issuer redemption date and every fifth year thereafter at a rate equal to the 5-year Government of Canada bond yield plus a reset spread (1.60% for Series P and 2.37% for Series T). The holders have the option to convert their shares into non-cumulative floating rate First Preferred Shares subject to certain conditions on the earliest redemption date and every fifth year thereafter at a rate equal to the 3-month Government of Canada Treasury Bill rate plus the reset spread indicated.

[2] On January 31, 2019, the Series T were subject to a dividend rate reset and the Series T shareholders were entitled to convert their shares into non-cumulative floating rate First Preferred Shares. None of the outstanding 8,000,000 Non-Cumulative 5-year Rate Reset First Preferred Shares, Series T were converted into Non-Cumulative Floating Rate First Preferred Shares, Series U. The dividend rate for the Series T shares was reset to an annual fixed rate of 4.215% or $0.263438 per share cash dividend payable quarterly.

[3] The holders have the option to convert their shares into Series P First Preferred Shares, subject to certain conditions, on January 31, 2021, and on every five years thereafter.

Common Shares

In 2019, no common shares were issued under the Corporation's Employee Stock Option Plan (225,000 common shares were issued in 2018 for a consideration of $7 million).

Dividends declared on the Corporation's common shares in 2019 were $1.822 per share ($1.732 per share in 2018).

Substantial Issuer Bid

On April 17, 2019, the Corporation completed its substantial issuer bid (the PFC SIB) and purchased for cancellation 49,999,973 of its common shares at a purchase price of $33.00 per common share for an aggregate amount of $1.65 billion. The excess paid under the PFC SIB over the stated capital of $1.55 billion was recognized as a reduction to retained earnings. Transaction costs incurred in connection with the PFC SIB of $5 million were recorded in retained earnings.

Related Party Transaction

As part of the PFC SIB, Power Corporation, the parent company of the Corporation, participated in the PFC SIB and tendered its Power Financial common shares on a proportionate basis and on a non-proportionate basis. As a result of the PFC SIB, Power Corporation's equity ownership in Power Financial decreased from 65.5% to 64.1% immediately subsequent to the PFC SIB. Power Corporation effected its tender offer through a Qualifying Holdco Alternative (as described in the offer), which the Corporation also offered to other shareholders, pursuant to which the Corporation issued and subsequently cancelled 467,839,296 common shares. This resulted in a net increase in stated capital of $556 million and a corresponding decrease in retained earnings, with no impact to equity.

NOTE 19 Share-Based Compensation

STOCK OPTION PLAN

Under Power Financial's Employee Stock Option Plan, 27,498,801 common shares are reserved for issuance. The plan requires that the exercise price of the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest over periods beginning no earlier than one year from the date of grant and no later than five years from the date of grant. Outstanding options, which are not fully vested, have the following vesting conditions:

Year of grant	Options	Vesting conditions
2015	147,112	Vest equally over a period of five years
2016	231,009	Vest equally over a period of five years
2016	532,974	Vest 50% after three years and 50% after four years
2017	1,471,665	Vest 50% after three years and 50% after four years
2018	1,783,268	Vest 50% after three years and 50% after four years
2019	1,923,445	Vest 50% after three years and 50% after four years

A summary of the status of Power Financial's Employee Stock Option Plan as at December 31, 2019 and 2018, and changes during the respective years ended is as follows:

	2019		2018	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		$		$
Outstanding, beginning of year	11,292,625	32.36	11,291,779	32.59
Granted	1,923,445	32.68	1,809,883	31.78
Exercised	–	–	(225,000)	29.63
Forfeited and expired	(136,182)	26.22	(1,584,037)	33.76
Outstanding, end of year	13,079,888	32.47	11,292,625	32.36
Options exercisable, end of year	6,990,415	32.00	5,708,266	31.22

The following table summarizes information about stock options outstanding at December 31, 2019:

		Options outstanding			Options exercisable	
Range of exercise prices	Expiry date	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
$			(yrs)	$		$
28.13 – 32.46	2020	698,779	0.6	28.25	698,779	28.25
26.37 – 30.18	2021	777,503	1.6	26.54	777,503	26.54
25.07 – 38.35	2022	750,959	2.6	26.25	750,959	26.25
30.64 – 32.58	2023	756,189	3.6	32.44	756,189	32.44
34.01 – 35.36	2024	1,667,810	4.5	34.10	1,649,979	34.12
33.37 – 38.35	2025	1,641,825	5.3	36.81	1,494,713	37.00
30.27 – 32.32	2026	1,614,144	6.2	31.85	862,293	31.83
32.65 – 35.36	2027	1,468,041	7.2	35.33	–	–
31.78	2028	1,781,193	8.2	31.78	–	–
32.68	2029	1,923,445	9.3	32.68	–	–
		13,079,888	5.8	32.47	6,990,415	32.00

Subsequent event

As a part of the Reorganization (Note 33) completed on February 13, 2020, Power Corporation assumed the Corporation's stock option plan. The 13,079,888 options outstanding at February 13, 2020 under Power Financial's Employee Stock Option Plan were exchanged for options to acquire Subordinate Voting Shares of Power Corporation.

NOTE 19 Share-Based Compensation (continued)

COMPENSATION EXPENSE

During the year ended December 31, 2019, Power Financial granted 1,923,445 options (1,809,883 options in 2018) under its Employee Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2019	2018
Dividend yield	5.3%	4.4%
Expected volatility	15.3%	17.5%
Risk-free interest rate	1.8%	2.1%
Expected life (years)	9.4	9.2
Fair value per stock option ($/option)	1.54	2.86
Weighted-average exercise price ($/option)	32.68	31.78

Expected volatility has been estimated based on the historical volatility of the Corporation's share price over the expected option life.

Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity instruments at the grant date, amortized over the vesting period. Total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to $55 million in 2019 ($47 million in 2018) and is recorded in operating and administrative expenses in the statements of earnings.

PERFORMANCE SHARE UNIT PLAN

Power Financial established a Performance Share Unit (PSU) Plan for selected employees and officers (participants) to assist in retaining and further aligning the interests of participants with those of the shareholders. Under the terms of the Plan, PSUs may be awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Corporation's common shares. The PSUs are cash settled and vest over a three-year period. Participants can elect at the time of grant to receive a portion of their PSUs in the form of performance deferred share units (PDSUs) which also vest over a three-year period. PDSUs are redeemable when a participant is no longer an employee of the Corporation or any of its affiliates, or in the event of the death of the participant, by a lump-sum cash payment based on the value of the PDSU at that time. Additional PSUs and PDSUs are issued in respect of dividends payable on common shares based on the value of the PSU or PDSU at the dividend payment date. The carrying value of the PSU liability of $24 million ($13 million in 2018) is recorded within other liabilities.

NOTE 19 Share-Based Compensation (continued)

DEFERRED SHARE UNIT PLAN

Power Financial established a Deferred Share Unit Plan for its Directors to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this Plan, Directors participating in the Plan will receive half of their annual retainer in the form of deferred share units and may elect to receive the remainder of their annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the common shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director will receive additional deferred share units in respect of dividends payable on the common shares, based on the value of a deferred share unit on the date on which the dividends were paid on the common shares. A deferred share unit is payable, at the time a Director's membership on the Board is terminated (provided the Director is not then a director, officer or employee of an affiliate of the Corporation), or in the event of the death of a Director, by a lump-sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2019, the value of the deferred share units outstanding was $20 million ($17 million in 2018) and is recorded within other liabilities. Alternatively, directors may participate in a Share Purchase Plan for Directors.

EMPLOYEE SHARE PURCHASE PROGRAM

Power Financial established an Employee Share Purchase Program, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market. Power Financial invests, on the employee's behalf, up to an equal amount.

OTHER SHARE-BASED AWARDS OF SUBSIDIARIES

The subsidiaries of the Corporation have also established other share-based awards and performance share unit plans (plans) for their directors, management and employees. Some of these plans are cash settled and included within other liabilities. Total compensation expense related to these subsidiary plans amounted to $95 million in 2019 ($45 million in 2018) and is recorded in operating and administrative expenses on the statements of earnings.

NOTE 20 Non-Controlling Interests

The non-controlling interests of Lifeco and IGM, their subsidiaries and the Corporation's other subsidiaries reflected in the balance sheets are as follows:

	December 31, 2019			December 31, 2018		
	Lifeco	IGM and other	Total	Lifeco	IGM and other	Total
Non-controlling interests, beginning of year						
As previously reported	11,724	1,645	13,369	11,256	1,558	12,814
Change in accounting policies [Note 2]	(32)	(3)	(35)	–	–	–
Restated non-controlling interests, beginning of year	11,692	1,642	13,334	11,256	1,558	12,814
Net earnings attributable to non-controlling interests	827	239	1,066	954	243	1,197
Other comprehensive income (loss) attributable to non-controlling interests	(131)	(33)	(164)	169	5	174
Dividends	(584)	(186)	(770)	(567)	(197)	(764)
Repurchase of common shares and redemption of preferred shares, net of issuance of equity instruments [1]	(295)	(166)	(461)	(30)	9	(21)
Effect of changes in ownership interest and other [1]	(137)	29	(108)	(58)	27	(31)
Non-controlling interests, end of year	11,372	1,525	12,897	11,724	1,645	13,369

[1] Includes the impact of the purchase for cancellation of common shares by Lifeco under its substantial issuer bid.

The carrying value of non-controlling interests consists of the following:

	December 31, 2019			December 31, 2018		
	Lifeco	IGM and other	Total	Lifeco	IGM and other	Total
Common shareholders	5,899	1,525	7,424	6,273	1,495	7,768
Preferred shareholders	2,714	–	2,714	2,714	150	2,864
Participating account surplus	2,759	–	2,759	2,737	–	2,737
	11,372	1,525	12,897	11,724	1,645	13,369

Financial information of Lifeco and IGM as at and for the year ended December 31, 2019 can be obtained from their publicly available financial statements. Summarized financial information for Lifeco and IGM is as follows:

	2019		2018	
	Lifeco	IGM	Lifeco	IGM
Balance sheet				
Assets	451,167	15,391	427,689	15,609
Liabilities	425,624	10,892	400,291	11,007
Equity	25,543	4,499	27,398	4,602
Comprehensive income				
Net earnings	2,507	749	3,075	776
Other comprehensive income (loss)	(520)	(60)	632	25
Cash flows				
Operating activities	6,110	712	6,494	785
Financing activities	(3,981)	(1,069)	(1,267)	(1,132)
Investing activities	(1,539)	427	(4,776)	30

NOTE 21 Capital Management

POWER FINANCIAL

Subsequent to the Reorganization (Note 33), Power Corporation holds 100% of the issued and outstanding common shares of the Corporation. The Corporation's preferred shares and debt securities remain outstanding. As a holding company, Power Financial's objectives in managing its capital are to:

- provide attractive long-term returns to the shareholder of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present;
- maintain a capital structure that matches the long-term nature of its investments by maximizing the use of permanent capital; and
- maintain an appropriate credit rating to ensure stable access to the capital markets.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital.

The capital structure of the Corporation consists of debentures, perpetual preferred shares, common shareholders' equity and non-controlling interests. The Corporation views perpetual preferred shares as a cost-effective source of permanent capital. The Corporation is a long-term investor and as such holds positions in long-term investments as well as cash and fixed income securities for liquidity purposes.

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of common shares, perpetual preferred shares and debentures. The boards of directors of the Corporation's subsidiaries, as well as those of Pargesa and Groupe Bruxelles Lambert, oversee and have the responsibility for their respective company's capital management.

On April 17, 2019, the Corporation completed the PFC SIB and repurchased for cancellation $1.65 billion of its common shares. The PFC SIB facilitated the repurchase of common shares at attractive market valuations and returned capital to shareholders while maintaining Power Financial's strong capital position to fund future growth opportunities.

The Corporation itself is not subject to externally imposed regulatory capital requirements. However, Lifeco and certain of its main subsidiaries, IGM's subsidiaries and certain of the Corporation's other subsidiaries are subject to regulatory capital requirements and they manage their capital as described below.

LIFECO

Lifeco manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of Lifeco's capital management strategy are:

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of Lifeco ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholder value in the context of Lifeco's operational risks and strategic plans.

Lifeco has established policies and procedures designed to identify, measure and report all material risks. Management of Lifeco is responsible for establishing capital management procedures for implementing and monitoring the capital plan.

NOTE 21 Capital Management (continued)

The target level of capitalization for Lifeco and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to Lifeco, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of Lifeco with a high degree of confidence.

Lifeco's subsidiaries Great-West Life, Great-West Life & Annuity and entities based in Europe are subject to minimum regulatory capital requirements.

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a regulatory capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries known as the Life Insurance Capital Adequacy Test (LICAT). The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer, defined by OSFI, is the aggregate of all defined capital requirements multiplied by a scalar of 1.05. The total capital resources are provided by the sum of available capital, surplus allowance and eligible deposits. OSFI has established a supervisory target total ratio of 100%, and a supervisory minimum total ratio of 90%. Great-West Life's consolidated LICAT ratio at December 31, 2019 was 135% (140% at December 31, 2018).
- For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2019 and 2018, all Lifeco's European regulated entities met the capital and solvency requirements as prescribed under Solvency II.
- Great-West Life & Annuity is subject to the risk-based capital regulatory regime in the U.S.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2019 and 2018, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

IGM FINANCIAL

IGM's capital management objective is to maximize shareholder returns while ensuring that IGM is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. IGM's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. IGM regularly assesses its capital management practices in response to changing economic conditions.

IGM's capital is primarily used in its ongoing business operations to support working capital requirements, its long-term investments, business expansion and other strategic objectives.

The IGM subsidiaries that are subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. At December 31, 2019 and 2018, IGM subsidiaries have complied with all regulatory capital requirements.

OTHER SUBSIDIARIES

Certain other subsidiaries are subject to regulatory capital requirements, including a mutual fund dealer, portfolio managers, and an order-execution-only broker. These other subsidiaries are required to maintain levels of capital based on their working capital, liquidity or shareholders' equity. At December 31, 2019 and 2018, these other subsidiaries have complied with all regulatory capital requirements.

NOTE 22 Risk Management

The Corporation and its subsidiaries have established policies, guidelines and procedures designed to identify, measure, monitor and mitigate risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- Liquidity risk is the risk that the Corporation and its subsidiaries would not be able to meet all cash outflow obligations as they come due or be able to, in a timely manner, raise capital or monetize assets at normal market conditions.
- Credit risk is the potential for financial loss to the Corporation and its subsidiaries if a counterparty in a transaction fails to meet its payment obligations. Credit risk can be related to the default of a single debt issuer, the variation of credit spreads on tradable fixed income securities and also to counterparty risk relating to derivative products.
- Market risk is the risk that the market value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: foreign exchange risk, interest rate risk and equity risk.
  - Foreign exchange risk relates to the Corporation, its subsidiaries and its jointly controlled corporations and associates operating in different currencies and converting non-Canadian investments and earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
  - Interest rate risk is the risk that the fair value of a financial instrument will fluctuate following changes in the interest rates.
  - Equity risk is the potential loss associated with the sensitivity of the market price of a financial instrument arising from volatility in equity markets.

This note to the financial statements includes estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons, including:

- assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered;
- changes in actuarial, investment return and future investment activity assumptions;
- actual experience differing from the assumptions;
- changes in business mix, effective tax rates and other market factors;
- interactions among these factors and assumptions when more than one changes; and
- the general limitations of internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Corporation cannot provide assurance that the actual impact on net earnings will be as indicated.

POWER FINANCIAL AND OTHER SUBSIDIARIES

Liquidity risk, credit risk and market risk of Power Financial and other subsidiaries are discussed in the first section of this note. In subsequent sections, risks related to Lifeco and IGM are discussed.

Liquidity risk

Power Financial is a holding company. As such, corporate cash flows are principally derived from dividends received from its subsidiaries and a jointly controlled corporation, and income from investments, less operating expenses, financing charges, income taxes and payment of dividends to its common and preferred shareholders. The ability of Lifeco, IGM and Parjointco, which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their own subsidiaries.

NOTE 22 Risk Management (continued)

The Corporation regularly reviews its liquidity requirements and seeks to maintain a sufficient level of liquidity to meet its operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time, as defined in its policies. The ability of Power Financial and other subsidiaries to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance and risk profile of Power Financial and its subsidiaries.

Other subsidiaries have uncommitted lines of credit of $65 million with Canadian banks ($57 million was undrawn at December 31, 2019).

Principal repayments on debentures (other than those of Lifeco and IGM discussed below) of $250 million due in 2023 represent the only significant contractual liquidity requirement of Power Financial.

Power Financial and other subsidiaries' management of liquidity risk has not changed materially since December 31, 2018.

Credit risk

Fixed income securities and derivatives are subject to credit risk. The Corporation mitigates credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum rating and concentration limits.

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and banks in jurisdictions where Power Financial operates as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives can also be used to mitigate foreign exchange exposures. The Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

Other subsidiaries' financial instruments are subject to credit risk. Other subsidiaries regularly review the credit ratings of their counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Power Financial and other subsidiaries' exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2018.

Market risk

Power Financial and other subsidiaries' financial instruments are comprised of cash and cash equivalents, fixed income securities, derivatives and debentures and other debt instruments.

a) Foreign exchange risk

In its ongoing operations, Power Financial and other subsidiaries may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2019, approximately 2% (approximately 3% in 2018) of Power Financial and other subsidiaries' cash and cash equivalents and fixed income securities were denominated in U.S. dollars.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. Pargesa itself is exposed to foreign exchange risk through its subsidiary whose functional currency is the euro. Foreign currency translation gains and losses from Pargesa are recorded in other comprehensive income.

NOTE 22 Risk Management (continued)

b) Interest rate risk

Power Financial and other subsidiaries' financial instruments do not have significant exposure to interest rate risk.

c) Equity risk

Power Financial and other subsidiaries' financial instruments do not have significant exposure to equity risk.

Pargesa indirectly holds substantial investments classified as available for sale. Unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

LIFECO

The risk committee of the board of directors of Lifeco is responsible for the oversight of Lifeco's key risks.

Liquidity risk

Lifeco has the following policies and procedures in place to manage liquidity risk:

- Lifeco closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 57% (approximately 53% in 2018) of insurance and investment contract liabilities are non-cashable prior to maturity or claim, with a further approximately 14% (13% in 2018) of insurance and investment contract liabilities subject to fair value adjustments under certain conditions.
- Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. Lifeco maintains $350 million of liquidity at its level through committed lines of credit with Canadian chartered banks. As well, Lifeco maintains a $150 million liquidity facility at Great-West Life, a US$500 million revolving credit agreement with a syndicate of banks for use by Putnam, and a US$50 million line of credit at Great-West Life & Annuity.

In the normal course of business, Lifeco enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of Lifeco's financial liabilities.

	Payments due by period						
December 31, 2019	1 year	2 years	3 years	4 years	5 years	After 5 years	Total
Debentures and other debt instruments	929	–	–	730	–	4,224	5,883
Capital trust debentures [1]	–	–	–	–	–	150	150
Purchase obligations	125	57	29	13	8	84	316
Future lease payments	83	78	66	56	53	417	753
Pension contributions	280	–	–	–	–	–	280
	1,417	135	95	799	61	4,875	7,382

[1] Payments due have not been reduced to reflect that Lifeco held capital trust securities of $37 million principal amount ($53 million carrying value).

NOTE 22 Risk Management (continued)

Credit risk

Lifeco has the following policies and procedures in place to manage credit risk:

- Investment policies aim to minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- Portfolios are monitored continuously, and reviewed regularly with the risk committee and the investment committee of the board of directors of Lifeco.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators. Lifeco manages derivative credit risk by including derivative exposure to aggregate credit exposures measured against rating-based obligor limits and through collateral arrangements where possible.
- Counterparties providing reinsurance to Lifeco are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in Lifeco's Reinsurance Risk Management Policy. Lifeco seeks to minimize reinsurance credit risk by setting rating-based limits on net ceded exposure by counterparty as well as by seeking protection in the form of collateral or funds-withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

a) Maximum exposure to credit risk

The following table summarizes Lifeco's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	December 31, 2019	December 31, 2018
Cash and cash equivalents	4,628	4,168
Bonds		
Fair value through profit or loss	85,946	91,901
Available for sale	11,710	13,239
Loans and receivables	17,372	19,722
Mortgage loans	24,268	25,014
Loans to policyholders	8,601	8,929
Funds held by ceding insurers [1]	8,714	9,251
Reinsurance assets	20,707	6,126
Interest due and accrued	1,196	1,388
Accounts receivable	3,256	2,502
Premiums in course of collection	1,429	1,312
Trading account assets	1,092	843
Finance leases receivable	405	410
Other financial assets [2]	444	672
Derivative assets	451	417
Total balance sheet maximum credit exposure	190,219	185,894

[1] Includes $6,741 million as at December 31, 2019 ($7,246 million as at December 31, 2018) of funds held by ceding insurers where Lifeco retains the credit risk of the assets supporting the liabilities ceded (see Note 7).

[2] Includes items such as income taxes receivable and miscellaneous other assets of Lifeco.

NOTE 22 Risk Management (continued)

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has $156 million of collateral received from counterparties as at December 31, 2019 ($109 million as at December 31, 2018) relating to derivative assets.

b) Concentrations of credit risk

Concentrations of credit risk arise from exposures to a single obligor, a group of related obligors or groups of obligors that have similar credit risk characteristics and operate in the same geographic region or in similar industries. The characteristics of such obligors are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following table provides details of the carrying value of bonds of Lifeco by issuer, industry sector and geographic distribution:

	December 31, 2019			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	479	72	11,186	11,737
Government-related	19,307	1,795	8,814	29,916
Agency securitized	110	1,111	10	1,231
Non-agency securitized	2,159	4,664	1,738	8,561
Financials	4,119	3,011	6,346	13,476
Communications	888	617	1,120	2,625
Consumer products	3,761	2,738	3,504	10,003
Energy	2,173	1,071	906	4,150
Industrials	1,764	2,057	1,735	5,556
Technology	552	727	567	1,846
Transportation	2,897	546	1,197	4,640
Utilities	9,145	2,377	4,953	16,475
Short-term bonds	2,680	720	1,412	4,812
	50,034	21,506	43,488	115,028

	December 31, 2018			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	654	103	12,492	13,249
Government-related	17,947	3,605	8,499	30,051
Agency securitized	80	1,531	14	1,625
Non-agency securitized	2,191	5,701	1,830	9,722
Financials	3,986	4,666	6,068	14,720
Communications	788	1,357	1,211	3,356
Consumer products	3,660	4,073	3,412	11,145
Energy	1,805	2,241	868	4,914
Industrials	1,606	3,932	1,757	7,295
Technology	611	1,105	470	2,186
Transportation	2,622	968	1,131	4,721
Utilities	8,525	4,201	4,686	17,412
Short-term bonds	2,790	74	1,602	4,466
	47,265	33,557	44,040	124,862

NOTE 22 Risk Management (continued)

The following table provides details of the carrying value of mortgage loans of Lifeco by geographic location:

December 31, 2019	Single-family residential	Multi-family residential	Equity-release	Commercial	Total
Canada	2,069	4,496	374	7,871	14,810
United States	–	1,798	–	2,198	3,996
Europe	–	710	940	3,812	5,462
	2,069	7,004	1,314	13,881	24,268

December 31, 2018	Single-family residential	Multi-family residential	Equity-release	Commercial	Total
Canada	2,104	4,686	26	7,223	14,039
United States	–	2,434	–	4,006	6,440
Europe	–	497	787	3,251	4,535
	2,104	7,617	813	14,480	25,014

c) Asset quality

Bond Portfolio Quality	December 31, 2019	December 31, 2018
AAA	22,083	23,558
AA	33,272	33,793
A	37,233	41,008
BBB	21,922	25,553
BB and lower	518	950
Total bonds	115,028	124,862

Derivative Portfolio Quality	December 31, 2019	December 31, 2018
Over-the-counter contracts (counterparty credit ratings):		
AA	271	252
A	146	110
BBB	34	47
Exchange-traded	–	8
Total	451	417

d) Loans past due, but not impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management of Lifeco has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	December 31, 2019	December 31, 2018
Less than 30 days	28	1
30–90 days	1	2
Greater than 90 days	4	–
Total	33	3

NOTE 22 Risk Management (continued)

e) Future asset credit losses

The following outlines the future asset credit losses provided for in insurance contract liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	December 31, 2019	December 31, 2018
Participating	1,175	885
Non-participating	1,400	1,710
	2,575	2,595

Market risk

a) Foreign exchange risk

If the assets backing insurance and investment contract liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Lifeco has net investments in foreign operations. Lifeco's debt obligations are denominated in Canadian dollars, euros and U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts Lifeco's total equity. Correspondingly, Lifeco's book value per share and capital ratios monitored by rating agencies are also impacted.

The following policies and procedures are in place to mitigate Lifeco's exposure to foreign exchange risk:

- Lifeco uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented investment guidelines include maximum tolerances for unhedged currency mismatch exposures.
- For assets backing liabilities not matched by currency, Lifeco normally converts the assets back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.
- A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.

b) Interest rate risk

The following policies and procedures are in place to mitigate Lifeco's exposure to interest rate risk:

- Lifeco uses a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.

NOTE 22 Risk Management (continued)

- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.
- The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.10% (0.10% in 2018). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries-prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on Lifeco's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact Lifeco's range of scenarios covered.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries-prescribed scenarios:

- At December 31, 2019 and 2018, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- At December 31, 2019 and 2018, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

NOTE 22 Risk Management (continued)

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the net earnings of a 1% change in Lifeco's view of the range of interest rates to be covered by these provisions. The following provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions:

	December 31, 2019		December 31, 2018	
	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	(230)	811	(165)	639
Increase (decrease) in net earnings	175	(619)	115	(465)

c) *Equity risk*

Lifeco has investment policy guidelines in place that provide for prudent investment in equity markets with clearly defined limits to mitigate price risk.

The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, Lifeco generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level. In other words, Lifeco determines insurance contract liabilities at a level that covers the average loss in the worst 25% part of the loss distribution.

Some insurance and investment contract liabilities are supported by investment properties, common shares and private equities, for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity values. However, there may be additional market and liability impacts as a result of changes in the equity values that will cause the liabilities to fluctuate differently than the equity values. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

	December 31, 2019		December 31, 2018	
	10% increase	10% decrease	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	(107)	162	(87)	338
Increase (decrease) in net earnings	87	(129)	73	(266)

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. The following provides information on the expected impacts of a 1% increase or 1% decrease in the best estimate assumptions:

	December 31, 2019		December 31, 2018	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	(645)	752	(591)	680
Increase (decrease) in net earnings	509	(585)	476	(539)

NOTE 22 Risk Management (continued)

IGM FINANCIAL

The board of directors of IGM provides oversight and carries out its risk management mandate through various committees.

Liquidity risk

IGM's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near-term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and IGM's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and by committees of the board of directors of IGM.

A key liquidity requirement for IGM is the funding of consultant network compensation paid for the distribution of financial products and services. This compensation continues to be paid from operating cash flows.

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements related to the mortgage banking operation. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS), including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

Certain subsidiaries of IGM are approved issuers of NHA MBS and are approved sellers into the CMB Program. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in principal reinvestment accounts.

IGM maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

IGM's contractual maturities of certain liabilities were as follows:

	Payments due by period				
December 31, 2019	Demand	Less than 1 year	1–5 years	After 5 years	Total
Derivative financial instruments	–	7	10	–	17
Deposits and certificates	573	6	4	1	584
Obligations to securitization entities	–	1,474	5,431	9	6,914
Future lease payments	–	26	54	24	104
Debentures	–	–	–	2,100	2,100
Pension contributions	–	26	–	–	26
Total contractual maturities	573	1,539	5,499	2,134	9,745

NOTE 22 Risk Management (continued)

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's lines of credit. IGM's lines of credit with various Schedule I Canadian chartered banks totalled $825 million as at December 31, 2019, unchanged from December 31, 2018. The lines of credit as at December 31, 2019 consisted of committed lines of $650 million and uncommitted lines of $175 million. IGM has accessed its uncommitted lines of credit in the past; however, any advances made by the banks under the uncommitted lines are at the banks' sole discretion. As at December 31, 2019 and 2018, IGM was not utilizing its committed lines of credit or its uncommitted lines of credit.

IGM's liquidity position and its management of liquidity risk have not changed materially since December 31, 2018.

Credit risk

IGM's cash and cash equivalents, other investment holdings, mortgage portfolios and derivatives are subject to credit risk. IGM monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

At December 31, 2019, IGM's cash and cash equivalents of $720 million ($650 million in 2018) consisted of cash balances of $68 million ($82 million in 2018) on deposit with Canadian chartered banks and cash equivalents of $652 million ($568 million in 2018). IGM manages credit risk related to cash and cash equivalents by adhering to its investment policy that outlines credit risk parameters and concentration limits. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2019, residential mortgages, recorded on IGM's balance sheet, of $7.2 billion ($7.7 billion in 2018) consisted of $6.8 billion sold to securitization programs ($7.3 billion in 2018), $345 million held pending sale or securitization ($364 million in 2018) and $24 million related to IGM's intermediary operations ($26 million in 2018).

IGM manages credit risk related to residential mortgages through:

- adhering to its lending policy and underwriting standards;
- its loan servicing capabilities;
- use of client-insured mortgage default insurance and mortgage portfolio default insurance held by IGM; and
- its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's IG Living Plan™.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling $3.9 billion ($4.2 billion in 2018), IGM is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling $2.9 billion ($3.1 billion in 2018) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were $72 million ($74 million in 2018) and $38 million ($36 million in 2018), respectively, at December 31, 2019. Cash reserve accounts are reflected on the balance sheets, whereas rights to future net interest income are not reflected on the balance sheets and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 4.6% of mortgages held in ABCP trusts insured at December 31, 2019 (8.3% in 2018).

NOTE 22 Risk Management (continued)

At December 31, 2019, residential mortgages recorded on the balance sheet were 59.1% insured (61.5% in 2018). At December 31, 2019, impaired mortgages on these portfolios were $2 million ($3 million in 2018). Uninsured non-performing mortgages over 90 days on these portfolios were $2 million at December 31, 2019 ($2 million in 2018).

IGM also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on IGM's balance sheet as IGM has transferred substantially all of the risks and rewards of ownership associated with these loans.

IGM regularly reviews the credit quality of the mortgages and the adequacy of the allowance for credit losses.

IGM's allowance for credit losses was $1 million at December 31, 2019 ($1 million in 2018), and is considered adequate by IGM's management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2018.

IGM is exposed to credit risk through the derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain share-based compensation arrangements. These derivatives are discussed more fully under the market risk section below.

To the extent that the fair value of the derivatives is in a gain position, IGM is exposed to the credit risk that its counterparties fail to fulfill their obligations under these arrangements.

IGM's derivative activities are managed in accordance with its investment policy, which includes counterparty limits and other parameters to manage counterparty risk. Counterparties are all Canadian Schedule I chartered banks and, as a result, management of IGM has determined that its overall credit risk related to derivatives was not significant at December 31, 2019. Management of credit risk related to derivatives has not changed materially since December 31, 2018.

Market risk

a) Foreign exchange risk

IGM is exposed to foreign exchange risk on its investments in China AMC and Personal Capital. Changes to the carrying value due to changes in foreign exchange rates on both of these investments are recognized in other comprehensive income. A 5% increase (decrease) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investment by approximately $41 million ($45 million in 2018).

IGM's proportionate share of China AMC's and Personal Capital's earnings (losses), recorded in share of earnings (losses) of investments in jointly controlled corporations and associates in the statement of earnings, is also affected by changes in foreign exchange rates. A 5% increase (decrease) in Canadian currency relative to foreign currencies would decrease (increase) the proportionate share of China AMC's and Personal Capital's earnings by approximately $1 million ($1 million in 2018).

NOTE 22 Risk Management (continued)

b) Interest rate risk

IGM is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in IGM's mortgage banking operations.

IGM manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, IGM is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of $1 million (positive $5 million in 2018) and an outstanding notional value of $0.8 billion at December 31, 2019 ($0.9 billion in 2018). IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The negative fair value of these swaps totalled $5 million ($11 million in 2018), on an outstanding notional amount of $1.6 billion at December 31, 2019 ($1.7 billion in 2018). The negative net fair value of these swaps recorded on the balance sheet was $6 million at December 31, 2019 ($6 million in 2018) and has an outstanding notional amount of $2.4 billion at December 31, 2019 ($2.6 billion in 2018).
- IGM is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. IGM enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by IGM pending sale or securitization. The fair value of these swaps was $1 million (negative $2 million in 2018) on an outstanding notional amount of $180 million at December 31, 2019 ($250 million in 2018).

As at December 31, 2019, the impact to net earnings of a 100-basis-point increase in interest rates would have been a decrease of approximately $2 million (decrease of $1 million in 2018). IGM's exposure to and management of interest rate risk have not changed materially since December 31, 2018.

c) Equity risk

IGM is exposed to equity risk on its equity investments which are classified as either available for sale or fair value through profit or loss.

IGM sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. IGM hedges its exposure to this risk through the use of forward agreements and total return swaps.

Risks related to assets under management

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings of IGM.

NOTE 23 Operating and Administrative Expenses

	Years ended December 31,	
	2019[1]	2018
Salaries and other employee benefits	4,118	3,883
General and administrative expenses [2]	2,058	2,149
Amortization, depreciation and impairment	500	380
Premium taxes	506	495
Restructuring and other	55	90
	7,237	6,997

[1] Includes operating and administrative expenses recognized upon the completion of the reinsurance transaction with Protective Life (Note 3).

[2] Expenses related to short-term leases of $10 million and low-value leases of $3 million are included within general and administrative expenses.

RESTRUCTURING AND OTHER

Lifeco

In 2019, Putnam recorded a restructuring provision of $52 million ($36 million after tax). This restructuring is in respect of expense reductions and a realignment of its resources to best position itself for current and future opportunities. The expense reductions will be achieved through a reduction in staff, consolidation of certain mutual funds, digital technology modernization and facilities downsizing. Lifeco expects to pay out a significant portion of these remaining amounts during 2020.

In 2018, Lifeco recorded a restructuring provision of $67 million pre tax ($56 million after tax) in relation to its United Kingdom Business Transformation. This restructuring is in respect to activities aimed at achieving planned expense reductions and an organizational realignment. The expense reductions will be achieved through system exit costs, reduction in staff and other costs as a result of the integration of Retirement Advantage into Canada Life along with the sale of a heritage block of individual policies to Scottish Friendly.

IGM Financial

In 2018, IGM recorded a restructuring provision of $23 million pre tax ($17 million after tax) related to the re-engineering of its North American equity offerings and associated personnel changes, as well as other initiatives to improve IGM's offerings and operational effectiveness.

These restructuring charges are recorded within operating and administrative expenses in the statements of earnings. At December 31, 2019, the balance of restructuring provisions, including those above, of $97 million ($129 million in 2018) is recorded in other liabilities.

NOTE 24 Financing Charges

	Years ended December 31,	
	2019	2018
Interest on debentures and other debt instruments	378	320
Interest on lease liabilities	27	–
Interest on capital trust debentures	11	11
Other	19	29
	435	360

NOTE 25 Pension Plans and Other Post-Employment Benefits

CHARACTERISTICS, FUNDING AND RISKS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors as well as unfunded supplementary employee retirement plans (SERP) for certain employees. The Corporation and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. For most plans, active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits, in accordance with the terms of the plans, and assuming the plans are not terminated. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are supported by assets of the Corporation or its subsidiaries, as applicable.

The defined benefit plans of the Corporation, Lifeco's subsidiaries and IGM are closed to new entrants with plans in several geographies also closed to future defined benefit accruals. New hires are only eligible for defined contribution benefits. As a result, defined benefit plan exposure will continue to be reduced in future years.

The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. Contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Corporation and its subsidiaries also provide unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Lifeco's subsidiaries plans are closed to new hires and were previously amended to limit which employees could become eligible to receive benefits. The obligations for these benefits are supported by assets of the Corporation or its subsidiaries, as applicable.

The Corporation and its subsidiaries have pension and benefit committees or a trusteed arrangement that provides oversight for the benefit plans. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements. Significant changes to benefit plans require approval.

The Corporation and its subsidiaries' funding policy for the funded pension plans is to make annual contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit asset, the Corporation and its subsidiaries determine if an economic benefit exists in the form of potential reductions in future contributions, the present value of future expenses to be paid from the plan and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Corporation and its subsidiaries to the typical risks faced by defined benefit plans, such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Corporation and its subsidiaries.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

PLAN ASSETS, BENEFIT OBLIGATION AND FUNDED STATUS

	December 31, 2019		December 31, 2018	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	6,912	–	7,114	–
Interest income	227	–	222	–
Employee contributions	22	–	15	–
Employer contributions	212	22	224	21
Actual return on assets greater (lower) than interest income	711	–	(372)	–
Benefits paid	(306)	(22)	(393)	(21)
Settlement	(113)	–	(7)	–
Administrative expenses	(10)	–	(8)	–
Foreign exchange and other	(187)	–	117	–
Fair value of plan assets, end of year	7,468	–	6,912	–
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	7,921	416	8,136	455
Current service cost	103	3	137	4
Employee contributions	22	–	15	–
Interest cost	261	16	253	16
Actuarial (gains) losses on:				
Financial assumption changes	1,027	31	(316)	(21)
Demographic assumption changes	(25)	(5)	(68)	(15)
Arising from member experience	13	(3)	21	(4)
Benefits paid	(306)	(22)	(393)	(21)
Past service cost and plan amendments	(1)	–	6	–
Settlement	(150)	–	(8)	–
Curtailment	(3)	–	(4)	–
Foreign exchange and other	(200)	(1)	142	2
Defined benefit obligation, end of year	8,662	435	7,921	416
Funded status				
Fund deficit	(1,194)	(435)	(1,009)	(416)
Unrecognized amount due to asset ceiling (see below)	(37)	–	(103)	–
Accrued benefit liability	(1,231)	(435)	(1,112)	(416)

The aggregate defined benefit obligation of pension plans is as follows:

	December 31, 2019	December 31, 2018
Wholly or partly funded plans	8,117	7,415
Wholly unfunded plans	545	506

The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

	December 31, 2019			December 31, 2018		
	Defined benefit pension plans	Other post-employment benefits	Total	Defined benefit pension plans	Other post-employment benefits	Total
Pension benefit assets [Note 10]	231	–	231	148	–	148
Pension and other post-employment benefit liabilities [Note 16]	(1,462)	(435)	(1,897)	(1,260)	(416)	(1,676)
Accrued benefit liability	(1,231)	(435)	(1,666)	(1,112)	(416)	(1,528)

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Corporation and its subsidiaries must assess whether the pension asset has economic benefit to the Corporation and its subsidiaries through future contribution reductions, the present value of future expenses to be paid from the plan, or surplus refunds; in the event the Corporation and its subsidiaries are not entitled to a benefit, a limit or "asset ceiling" is required on the balance sheet. The following provides a breakdown of the changes in the asset ceiling.

	December 31, 2019	December 31, 2018
Asset ceiling, beginning of year	103	92
Interest on beginning-of-period asset ceiling	4	3
Change in asset ceiling	(70)	8
Asset ceiling, end of year	37	103

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

	December 31, 2019		December 31, 2018	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Defined benefit current service cost	103	3	137	4
Net interest cost	38	16	34	16
Past service cost, plan amendments, curtailments and settlements	(41)	–	1	–
Administration fees	10	–	8	–
Defined contribution current service cost	124	–	110	–
Expense recognized in net earnings	234	19	290	20
Actuarial (gains) losses recognized	1,015	23	(363)	(40)
Return on assets (greater) lower than interest income	(711)	–	372	–
Change in asset ceiling	(70)	–	8	–
Expense (recovery) recognized in other comprehensive income (loss)	234	23	17	(40)
Total expense (income)	468	42	307	(20)

In 2019, the Corporation and its subsidiaries incurred $6 million of actuarial losses ($2 million of actuarial gains in 2018) for pension plan remeasurements not included in the table shown above. This relates to the share of actuarial gains (losses) for investments in jointly controlled corporations and associates.

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

	Defined benefit pension plans	
Percentage (%)	December 31, 2019	December 31, 2018
Equity securities	44	42
Debt securities	46	48
All other assets	10	10
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Lifeco's plan assets include investments in segregated and other funds managed by subsidiaries of Lifeco of $6,031 million at December 31, 2019 ($5,501 million at December 31, 2018) of which $5,961 million ($5,431 million at December 31, 2018) are included in the balance sheets. Plan assets do not include any property occupied or other assets used by Lifeco. IGM's plan assets are invested in IGM's mutual funds. A portion of Power Financial's plan assets are invested in segregated funds managed by a subsidiary of Lifeco.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

DETAILS OF DEFINED BENEFIT OBLIGATION

Portion of defined benefit obligation subject to future salary increases

	December 31, 2019		December 31, 2018	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Benefit obligation without future salary increases	7,918	435	7,206	416
Effect of assumed future salary increases	744	–	715	–
Defined benefit obligation	8,662	435	7,921	416

Allocation of defined benefit obligation by membership

	December 31, 2019		December 31, 2018	
Percentage (%)	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Actives	42	19	40	23
Deferred vesteds	18	–	21	–
Retirees	40	81	39	77
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	18.4	11.7	17.8	11.4

CASH FLOW INFORMATION

The expected employer contributions for the year 2020 are as follows:

	Pension plans	Other post-employment benefits
Funded (wholly or partly) defined benefit plans	150	–
Unfunded defined benefit plans	25	24
Defined contribution plans	125	–
Total	300	24

ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

Actuarial assumptions

	December 31, 2019		December 31, 2018	
Percentage (%)	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Range of discount rates				
To determine benefit cost	3.4 – 3.9	3.7 – 4.4	3.1 – 3.6	3.5 – 3.8
To determine accrued benefit obligation at year-end	2.6 – 3.2	3.1 – 3.2	3.4 – 3.9	3.7 – 4.4
Weighted average assumptions used to determine benefit cost [1]				
Discount rate	3.6	3.9	3.2	3.5
Rate of compensation increase	3.1	–	3.2	–
Weighted average assumptions used to determine accrued benefit obligation at year-end [1]				
Discount rate	2.8	3.1	3.6	3.9
Rate of compensation increase	3.0	–	3.1	–
Weighted average healthcare trend rates [1]				
Initial healthcare trend rate		4.7		4.9
Ultimate healthcare trend rate		4.1		4.1
Year ultimate trend rate is reached		2039		2040

[1] Weighted based on the obligations of each plan.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

Sample life expectancies based on mortality assumptions

	December 31, 2019		December 31, 2018	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Weighted average life expectancies based on mortality assumptions [1]:				
Male				
Age 65 in fiscal year	22.6	22.4	22.6	22.3
Age 65 for those age 35 in the fiscal year	24.6	23.9	24.6	24.0
Female				
Age 65 in fiscal year	24.7	24.7	24.8	24.8
Age 65 for those age 35 in the fiscal year	26.7	26.2	26.7	26.3

[1] Weighted based on the obligations of each plan.

Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption. The mortality assumptions applied by the Corporation and its subsidiaries take into consideration average life expectancy, including allowances for future longevity improvements as appropriate, and reflect variations in such factors as age, gender and geographic location.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

Impact of changes to assumptions on defined benefit obligation

	December 31, 2019	
	1% increase	1% decrease
Defined benefit pension plans:		
Impact of a change to the discount rate	(1,375)	1,776
Impact of a change to the rate of compensation increase	353	(324)
Impact of a change to the rate of inflation	649	(582)
Other post-employment benefits:		
Impact of a change to the discount rate	(46)	56
Impact of a change to assumed medical cost trend rates	35	(29)

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions and therefore the sensitivity analysis presented may not be representative of the actual change.

NOTE 26 Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end-users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter with counterparties that are credit-worthy financial intermediaries.

The following tables summarize the portfolio of derivative financial instruments of the Corporation and its subsidiaries:

	Notional amount					
December 31, 2019	1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total fair value
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	1,075	2,119	2,389	5,583	198	156
Options purchased	35	184	25	244	–	–
Futures – long	9	3	–	12	–	–
Futures – short	10	7	–	17	–	–
	1,129	2,313	2,414	5,856	198	156
Foreign exchange contracts						
Forward contracts	1,342	–	–	1,342	17	15
Cross-currency swaps	299	2,395	10,345	13,039	209	(1,135)
	1,641	2,395	10,345	14,381	226	(1,120)
Other derivative contracts						
Equity contracts	105	–	–	105	2	2
Futures – long	13	–	–	13	–	–
Futures – short	774	–	–	774	–	(2)
Other forward contracts	1,709	–	–	1,709	2	2
	2,601	–	–	2,601	4	2
	5,371	4,708	12,759	22,838	428	(962)
Fair value hedges						
Foreign exchange contracts						
Forward contracts	74	–	–	74	2	2
Cash flow hedges						
Interest rate contracts						
Swaps	–	60	75	135	11	10
Other derivative contracts						
Equity contracts	16	45	–	61	7	7
	16	105	75	196	18	17
Net investment hedges						
Foreign exchange contracts						
Forward contracts	641	524	–	1,165	24	17
	6,102	5,337	12,834	24,273	472	(926)

NOTE 26 Derivative Financial Instruments (continued)

December 31, 2018	Notional amount 1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total fair value
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	1,007	2,192	2,149	5,348	126	71
Options purchased	47	225	79	351	43	43
Futures – long	46	26	–	72	–	–
	1,100	2,443	2,228	5,771	169	114
Foreign exchange contracts						
Forward contracts	1,066	–	–	1,066	3	(16)
Cross-currency swaps	560	1,968	9,209	11,737	219	(1,224)
	1,626	1,968	9,209	12,803	222	(1,240)
Other derivative contracts						
Equity contracts	637	–	–	637	8	(8)
Futures – long	12	–	–	12	–	–
Futures – short	1,059	–	–	1,059	8	6
Other forward contracts	951	–	–	951	13	13
	2,659	–	–	2,659	29	11
	5,385	4,411	11,437	21,233	420	(1,115)
Cash flow hedges						
Interest rate contracts						
Swaps	–	122	73	195	8	7
Other derivative contracts						
Equity contracts	19	38	–	57	–	(7)
	19	160	73	252	8	–
Net investment hedges						
Foreign exchange contracts						
Forward contracts	524	516	–	1,040	5	(45)
	5,928	5,087	11,510	22,525	433	(1,160)

The amount subject to maximum credit risk is limited to the current fair value of the instruments which are in a gain position. The maximum credit risk represents the total cost of all derivative contracts with positive values and does not reflect actual or expected losses. The total fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

NOTE 26 Derivative Financial Instruments (continued)

The Corporation and its subsidiaries use the following derivatives:

Type	Purpose
Interest rate contracts	Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations, intermediary operations and debt instruments. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Corporation and its subsidiaries the right to enter into a swap with predetermined fixed rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.
Foreign exchange contracts	Cross-currency swaps are used in combination with other investments to manage foreign exchange risk associated with investment activities and insurance and investment contract liabilities. Under these swaps, principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Corporation and its subsidiaries may also enter into certain foreign exchange forward contracts to hedge certain product liabilities, cash and cash equivalents and cash flows.
Other derivative contracts	Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage the potential credit risk impact of significant declines in certain equity markets. Equity forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Forward agreements and total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges.

The ineffective portion of the cash flow hedges during 2019, which includes interest rate contracts and foreign exchange contracts, and the anticipated net gains (losses) reclassified out of other comprehensive income within the next twelve months is nil. The maximum time frame for which variable cash flows are hedged is 50 years.

ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

The Corporation and its subsidiaries enter into the International Swaps and Derivative Association's (ISDA's) master agreements for transacting over-the-counter derivatives. The Corporation and its subsidiaries receive and pledge collateral according to the related ISDA's Credit Support Annexes. The ISDA's master agreements do not meet the criteria for offsetting on the balance sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with exchanges and clearing houses, there is no provision for set-off at default. Initial margin is excluded from the tables below as it would become part of a pooled settlement process.

NOTE 26 Derivative Financial Instruments (continued)

Lifeco's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between Lifeco and its counterparties in the event of default.

The following disclosure shows the potential effect on the balance sheets of financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the balance sheets.

				December 31, 2019
		Related amounts not set off in the balance sheet		
	Gross amount of financial instruments presented in the balance sheet	Offsetting counterparty position [1]	Financial collateral received / pledged [2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	472	(324)	(107)	41
Reverse repurchase agreements [3]	4	–	(4)	–
	476	(324)	(111)	41
Financial instruments (liabilities)				
Derivative financial instruments	1,398	(324)	(556)	518
	1,398	(324)	(556)	518

				December 31, 2018
		Related amounts not set off in the balance sheet		
	Gross amount of financial instruments presented in the balance sheet	Offsetting counterparty position [1]	Financial collateral received / pledged [2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	433	(292)	(101)	40
Reverse repurchase agreements [3]	15	–	(15)	–
	448	(292)	(116)	40
Financial instruments (liabilities)				
Derivative financial instruments	1,593	(292)	(599)	702
	1,593	(292)	(599)	702

[1] Includes counterparty amounts recognized on the balance sheets where the Corporation and its subsidiaries have a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheets, excluding collateral.

[2] Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $156 million ($113 million at December 31, 2018), received on reverse repurchase agreements was $4 million ($15 million at December 31, 2018), and pledged on derivative liabilities was $634 million ($691 million at December 31, 2018).

[3] Assets related to reverse repurchase agreements are included in bonds on the balance sheets.

NOTE 27 Fair Value Measurement

The following tables present the carrying amounts and fair value of the Corporation's assets and liabilities recorded or disclosed at fair value, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies (Note 2) and below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment. The following tables distinguish between assets and liabilities recorded at fair value on a recurring basis and those for which fair value is disclosed.

These tables exclude fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

December 31, 2019	Carrying value	Level 1	Level 2	Level 3	Total fair value
Assets					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	85,845	-	85,778	67	85,845
Available for sale	11,910	-	11,910	-	11,910
Mortgage and other loans					
Fair value through profit or loss	1,314	-	-	1,314	1,314
Shares					
Fair value through profit or loss	9,925	9,011	118	796	9,925
Available for sale	113	12	42	59	113
Investment properties	5,887	-	-	5,887	5,887
Funds held by ceding insurers	6,661	216	6,445	-	6,661
Derivative instruments	472	-	468	4	472
Reinsurance assets	127	-	127	-	127
Other assets	1,490	375	1,115	-	1,490
	123,744	9,614	106,003	8,127	123,744
Assets disclosed at fair value					
Bonds					
Loans and receivables	17,372	-	19,281	63	19,344
Mortgage and other loans					
Loans and receivables	30,131	-	24,177	6,908	31,085
Shares					
Available for sale [1]	150	-	-	150	150
Funds held by ceding insurers	80	-	-	80	80
	47,733	-	43,458	7,201	50,659
Total	171,477	9,614	149,461	15,328	174,403
Liabilities					
Liabilities recorded at fair value					
Investment contract liabilities	1,656	-	1,656	-	1,656
Derivative instruments	1,398	3	1,390	5	1,398
Other liabilities	411	43	355	13	411
	3,465	46	3,401	18	3,465
Liabilities disclosed at fair value					
Obligations to securitization entities	6,914	-	-	6,997	6,997
Debentures and other debt instruments	8,250	437	9,128	-	9,565
Deposits and certificates	886	-	887	-	887
	16,050	437	10,015	6,997	17,449
Total	19,515	483	13,416	7,015	20,914

[1] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are recorded at cost.

NOTE 27 Fair Value Measurement (continued)

December 31, 2018	Carrying value	Level 1	Level 2	Level 3	Total fair value
Assets					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	91,815	–	91,748	67	91,815
Available for sale	13,532	–	13,532	–	13,532
Mortgage and other loans					
Fair value through profit or loss	817	–	4	813	817
Shares					
Fair value through profit or loss	8,794	8,341	–	453	8,794
Available for sale	213	9	–	204	213
Investment properties	5,218	–	–	5,218	5,218
Funds held by ceding insurers	7,155	230	6,925	–	7,155
Derivative instruments	433	8	416	9	433
Assets held for sale [1]	782	22	731	29	782
Other assets	927	597	330	–	927
	129,686	9,207	113,686	6,793	129,686
Assets disclosed at fair value					
Bonds					
Loans and receivables	19,722	–	20,524	95	20,619
Mortgage and other loans					
Loans and receivables	31,900	–	24,944	7,405	32,349
Shares					
Available for sale [2]	239	–	–	239	239
Funds held by ceding insurers	91	–	–	91	91
	51,952	–	45,468	7,830	53,298
Total	181,638	9,207	159,154	14,623	182,984
Liabilities					
Liabilities recorded at fair value					
Investment contract liabilities	1,711	–	1,711	–	1,711
Investment contract liabilities held for sale	27	–	1	26	27
Derivative instruments	1,593	2	1,587	4	1,593
Other liabilities	162	8	84	70	162
	3,493	10	3,383	100	3,493
Liabilities disclosed at fair value					
Obligations to securitization entities	7,370	–	–	7,437	7,437
Debentures and other debt instruments	8,492	490	8,734	–	9,224
Deposits and certificates	622	–	622	–	622
	16,484	490	9,356	7,437	17,283
Total	19,977	500	12,739	7,537	20,776

[1] Excludes cash and cash equivalents and loans to policyholders as the carrying value is a reasonable approximation of the fair value.

[2] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are recorded at cost.

There were no significant transfers between Level 1 and Level 2 in 2019 and 2018.

NOTE 27 Fair Value Measurement (continued)

The Corporation's assets and liabilities recorded at fair value and those for which fair value is disclosed have been categorized based upon the following fair value hierarchy:

Level	Definition	Financial assets and liabilities
Level 1	Utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.	▪ actively exchange-traded equity securities; ▪ exchange-traded futures; ▪ mutual and segregated funds which have available prices in an active market with no redemption restrictions; ▪ open-end investment fund units and other liabilities in instances where there are quoted prices available from active markets.
Level 2	Utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other-than-quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data.	▪ assets and liabilities priced using a matrix which is based on credit quality and average life; ▪ government and agency securities; ▪ restricted shares; ▪ certain private bonds and equities; ▪ most investment-grade and high-yield corporate bonds; ▪ most asset-backed securities; ▪ most over-the-counter derivatives; ▪ most mortgage and other loans; ▪ deposits and certificates; ▪ most debentures and other debt instruments; ▪ most of the investment contracts that are measured at fair value through profit or loss.
Level 3	Utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single-broker quotes, internal pricing models, external appraisers or by discounting projected cash flows.	▪ certain bonds; ▪ certain asset-backed securities; ▪ certain private equities; ▪ certain mortgage and other loans, including equity-release mortgages; ▪ investments in mutual and segregated funds where there are redemption restrictions; ▪ certain over-the-counter derivatives; ▪ investment properties; ▪ obligations to securitization entities; ▪ certain other debt instruments.

NOTE 27 Fair Value Measurement (continued)

The following tables present additional information about assets and liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have utilized Level 3 inputs to determine fair value for the years ended December 31, 2019 and 2018.

	Bonds	Mortgages and other loans	Shares				Assets (liabilities) held for sale and other assets (liabilities)		
December 31, 2019	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss[2]	Available for sale	Investment properties	Derivatives, net		Investment contract liabilities	Total
Balance, beginning of year									
As previously reported	67	813	453	204	5,218	5	(67)	–	6,693
Change in accounting policy [Note 2]	–	–	–	–	29	–	–	–	29
Restated balance, beginning of year	67	813	453	204	5,247	5	(67)	–	6,722
Total gains (losses)									
In net earnings	4	109	64	27	37	(5)	(5)	–	231
In other comprehensive income [1]	(4)	(5)	–	(23)	(36)	–	(1)	–	(69)
Purchases	–	–	346	9	644	(2)	–	–	997
Issues	–	469	–	–	–	–	–	–	469
Sales	–	–	(67)	(8)	(5)	–	(26)	–	(106)
Settlements	–	(72)	–	–	–	1	45	–	(26)
Other [3]	–	–	–	(150)	–	–	41	–	(109)
Balance, end of year	67	1,314	796	59	5,887	(1)	(13)	–	8,109

[1] Amount of other comprehensive income for fair value through profit or loss bonds, mortgage and other loans and investment properties represents the unrealized gains (losses) on foreign exchange.

[2] Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

[3] In January 2019, the investment in Personal Capital was reclassified from available for sale to an investment in an associate (Note 8).

	Bonds	Mortgages and other loans	Shares				Assets (liabilities) held for sale and other assets (liabilities)		
December 31, 2018	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss[2]	Available for sale	Investment properties	Derivatives, net		Investment contract liabilities	Total
Balance, beginning of year	65	–	244	169	4,851	4	(62)	(22)	5,249
Total gains (losses)									
In net earnings	–	(24)	28	–	33	(12)	–	–	25
In other comprehensive income [1]	2	20	–	38	70	–	–	–	130
Business acquisition	–	799	–	–	–	–	–	–	799
Purchases	–	–	249	4	356	–	–	–	609
Issues	–	76	–	–	–	–	–	–	76
Sales	–	–	(68)	(7)	(63)	–	–	–	(138)
Settlements	–	(58)	–	–	–	13	–	–	(45)
Transferred to held for sale	–	–	–	–	(29)	–	3	26	–
Other	–	–	–	–	–	–	(8)	(4)	(12)
Balance, end of year	67	813	453	204	5,218	5	(67)	–	6,693

[1] Amount of other comprehensive income for fair value through profit or loss bonds, mortgage and other loans and investment properties represents the unrealized gains (losses) on foreign exchange.

[2] Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual funds and segregated funds.

NOTE 27 Fair Value Measurement (continued)

The following table sets out information about significant unobservable inputs used at year-end in measuring assets and liabilities categorized as Level 3 in the fair value hierarchy.

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 2.6% – 10.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.3% – 6.8%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 2.4%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage and other loans (fair value through profit or loss)	The valuation approach for equity-release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no-negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long-term care of the loanholders.	Discount rate	Range of 3.6% – 4.8%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
Shares	The determination of the fair value of shares requires the use of estimates such as future cash flows, discount rates, projected earnings multiples, or recent transactions.	Discount rate	Various	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

NOTE 28 Other Comprehensive Income

Year ended December 31, 2019	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Balance, beginning of year	43	1,190	1,107	(535)	(17)	1,788
Other comprehensive income (loss)	73	(345)	523	(139)	(6)	106
Other	–	(16)	–	6	–	(10)
Balance, end of year	116	829	1,630	(668)	(23)	1,884

Year ended December 31, 2018	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Balance, beginning of year	98	661	1,134	(557)	(19)	1,317
Other comprehensive income (loss)	(55)	529	(27)	22	2	471
Balance, end of year	43	1,190	1,107	(535)	(17)	1,788

NOTE 29 Earnings Per Share

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

	Years ended December 31,	
	2019	2018
Earnings		
Net earnings attributable to shareholders	2,103	2,383
Dividends on perpetual preferred shares	(139)	(138)
Net earnings attributable to common shareholders	1,964	2,245
Dilutive effect of subsidiaries' outstanding stock options	–	(3)
Net earnings adjusted for dilutive effect	1,964	2,242
Number of common shares [millions]		
Weighted average number of common shares outstanding – Basic	678.6	714.0
Potential exercise of outstanding stock options	0.3	0.3
Weighted average number of common shares outstanding – Diluted	678.9	714.3
Net earnings per common share		
Basic	2.89	3.15
Diluted	2.89	3.14

For 2019, 11.0 million stock options (8.9 million in 2018) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

NOTE 30 Related Parties

PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

The financial statements of Power Financial include the operations of the following direct and indirect subsidiaries and investments in jointly controlled corporations and associates:

			% equity interest	
Corporations	Incorporated in	Primary business operation	2019	2018
Great-West Lifeco Inc. [1]	Canada	Financial services holding company	70.9	71.8
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100.0	100.0
London Life Insurance Company	Canada	Insurance and wealth management	100.0	100.0
The Canada Life Assurance Company	Canada	Insurance and wealth management	100.0	100.0
Irish Life Group Limited	Ireland	Insurance and wealth management	100.0	100.0
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100.0	100.0
Putnam Investments, LLC [2]	United States	Financial services	96.5	96.7
IGM Financial Inc. [3]	Canada	Wealth and asset management	66.0	65.2
IG Wealth Management	Canada	Financial services	100.0	100.0
Mackenzie Financial Corporation	Canada	Investment manager	100.0	100.0
China Asset Management Co., Ltd.	China	Asset management company	13.9	13.9
Parjointco N.V.	Netherlands	Holding company	50.0	50.0
Pargesa Holding SA	Switzerland	Holding company	55.5	55.5
Portag3 Ventures LP [4]	Canada	Investment fund	100.0	100.0
Portag3 Ventures II LP [5]	Canada	Investment fund	23.2	47.0
Wealthsimple Financial Corp. [6]	Canada	Financial services	84.9	81.7
Koho Financial Inc. [7]	Canada	Financial services	54.4	63.4

[1] Power Financial holds a 66.9% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco.

[2] Lifeco holds 100% of the voting shares and 96.5% of the total outstanding shares.

[3] Power Financial holds a 62.1% equity interest and The Great-West Life Assurance Company holds a 3.9% equity interest in IGM Financial.

[4] Power Financial holds a 63.0% equity interest and Lifeco and IGM Financial each hold an equity interest of 18.5% in Portag3.

[5] Power Financial, Lifeco and IGM Financial each hold an equal equity interest of 7.7% in Portag3 II.

[6] Power Financial, Portag3 and IGM Financial hold an equity interest of 21.2%, 16.8% and 46.9%, respectively, in Wealthsimple.

[7] Power Financial, Lifeco and IGM Financial hold equal interests of 6.5% and Portag3 and Portag3 II hold interests of 2.7% and 32.1%, respectively, in Koho.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Power Financial and its subsidiaries enter into various transactions: subsidiaries provide insurance benefits, sub-advisory services, distribution of insurance products and/or other administrative services to other subsidiaries of the group and to the Corporation; loans to employees; as well as capital commitments to investment funds, performance fees and base management fees paid to subsidiaries of the group. In all cases, these transactions are in the normal course of operations and have been recorded at fair value. Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of other transactions between the Corporation and related parties are disclosed below.

As part of the PFC SIB, Power Corporation, the parent company of the Corporation, participated in the PFC SIB and tendered its Power Financial common shares on a proportionate basis and on a non-proportionate basis (Note 18).

In 2019, IGM sold residential mortgage loans to Great-West Life and London Life for $11 million ($61 million in 2018).

In October 2017, IGM obtained advanced tax rulings which permitted tax loss consolidation transactions with a subsidiary of Power Corporation, whereby shares of a subsidiary that has generated tax losses may be acquired by IGM in each year up to and including 2020. The acquisitions are expected to close in the fourth quarter of each year. IGM will recognize the benefit of the tax losses realized throughout the year. On December 31, 2019 and December 31, 2018, IGM acquired shares of the subsidiary.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Corporation, Power Financial and Lifeco and its subsidiaries.

NOTE 30 Related Parties (continued)

KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The persons included in the key management personnel are the members of the Board of Directors of the Corporation, as well as certain management executives of the Corporation and its subsidiaries.

The following table describes all compensation paid to, awarded to, or earned by each of the key management personnel for services rendered in all capacities to the Corporation and its subsidiaries:

	Years ended December 31,	
	2019	2018
Compensation and employee benefits	26	20
Post-employment benefits	4	3
Share-based payments	18	18
	48	41

NOTE 31 Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. Provisions are established if, in management of the Corporation and of its subsidiaries' judgment, it is probable a payment will be required and the amount can be reliably estimated. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation. Actual results could differ from the best estimates of the Corporation's and its subsidiaries' management.

LIFECO

A subsidiary of Lifeco in the United States is a defendant in an action in relation to its role as collateral manager of a collateralized debt obligation brought by an institution involved in the collateralized debt obligation. Lifeco's management believes the resolution of this matter will not have a material adverse effect on Lifeco's consolidated financial position.

Subsidiaries of Lifeco in the United States are defendants in legal actions, including class actions, relating to the administration of their staff retirement plans, or to the costs and features of certain of their retirement or fund products. Management of Lifeco believes the claims are without merit and will be aggressively defending these actions. Based on the information presently known Lifeco's management believes these actions will not have a material adverse effect on Lifeco's consolidated financial position.

A subsidiary of Lifeco, as reinsurer, is involved in an arbitration relating to the interpretation of certain provisions of a reinsurance treaty and the alleged underreporting of claims and overpayment of premium. Based on information presently known, it is difficult for Lifeco to predict the outcome of this matter with certainty, but this matter is not expected to have a material adverse effect on Lifeco's consolidated financial position.

IGM FINANCIAL

In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie Financial Corporation, a subsidiary of IGM, which alleges that Mackenzie should not have paid mutual fund trailing commissions to order-execution-only dealers. Although it is difficult to predict the outcome of any such legal action, based on current knowledge of IGM's management and their consultation with their legal counsel, they do not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on IGM's consolidated financial position.

NOTE 32 Commitments and Guarantees

GUARANTEES

In the normal course of operations, the Corporation and its subsidiaries execute agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Corporation and its subsidiaries have also agreed to indemnify their directors and certain of their officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation and its subsidiaries could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements. No provisions have been recognized related to these agreements.

LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities at Lifeco is US$2.3 billion, of which US$1.8 billion were issued as of December 31, 2019.

The Reinsurance operation also periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance sheet policy liabilities.

INVESTMENT COMMITMENTS

With respect to Lifeco, commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines and that are to be disbursed upon fulfilment of certain contract conditions were $1,042 million as at December 31, 2019, with $1,006 million maturing within one year and $19 million maturing within two years and $17 million maturing within three years.

PLEDGING OF ASSETS FOR REINSURANCE AGREEMENTS

In addition to the assets pledged by Lifeco disclosed elsewhere in the financial statements:

(i) The amount of assets included in the Corporation's balance sheet which have a security interest by way of pledging is $1,456 million ($1,464 million at December 31, 2018) in respect of reinsurance agreements.

In addition, under certain reinsurance contracts, bonds presented in portfolio investments are held in trust and escrow accounts. Assets are placed in these accounts pursuant to the requirements of certain legal and contractual obligations to support contract liabilities assumed.

(ii) Lifeco has pledged, in the normal course of business, $75 million ($76 million at December 31, 2018) of its assets for the purpose of providing collateral for the counterparty.

NOTE 33 Subsequent Events

POWER FINANCIAL

Reorganization

On December 13, 2019, Power Corporation and the Corporation announced the execution of a definitive agreement to effect a reorganization transaction (Reorganization) pursuant to which each common share of the Corporation (PFC Common Shares) held by holders of PFC Common Shares other than Power Corporation and certain of its affiliates (PFC Minority Shareholders), will be exchanged for 1.05 Subordinate Voting Shares of Power Corporation (PCC Subordinate Voting Shares) and $0.01 in cash.

On February 13, 2020, the Corporation successfully completed the Reorganization and Power Corporation acquired 238,693,580 Power Financial Common Shares. Subsequent to the Reorganization, Power Corporation holds 100% of the issued and outstanding Power Financial Common Shares, which were delisted from the TSX. The PFC preferred shares continue to be listed and the 6.9% debentures due March 11, 2033 remain outstanding. Power Financial incurred $9 million of costs related to this transaction, primarily related to legal and financial advisor fees. Transactions costs are included within operating and administrative expenses for the year ended December 31, 2019.

Stock Option Plan

As part of the Reorganization, Power Corporation assumes the Corporation's stock option plan. The 13,079,888 options outstanding at February 13, 2020 under the Power Financial Employee Stock Option Plan (Existing Options) were exchanged for options to acquire Subordinate Voting Shares of Power Corporation (Replacement Options).

The Replacement Options entitle the option holders to receive 1.05 Subordinate Voting Shares of Power Corporation (PCC Shares) for each common share of Power Financial (PFC Shares) at a subscription price per PCC Share equal to the subscription price per PFC Share, under the existing Power Financial Employee Stock Option Plan, divided by 1.05. The other terms of the Replacement Options are the same as the terms of the Existing Options, including terms with respect to vesting and expiry of options and termination of employment.

Performance Share Unit Plan

Also as part of the Reorganization, the Power Financial Performance Share Unit (PSU) Plan continues under the same terms and conditions as were applicable, except that the number of existing PSUs and existing PDSUs was adjusted by multiplying such number of PSUs or PDSUs by 1.05. The value of each PSU and PDSU is now based on the share price of Power Corporation's Subordinate Voting Shares.

LIFECO

Irish Progressive Services International Limited

On February 10, 2020, Irish Life announced the sale of Irish Progressive Services International Limited, a wholly owned subsidiary of Lifeco whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The proposed transaction will be subject to customary closing conditions including receipt of required regulatory approvals and is expected to be completed in the second half of 2020. Lifeco expects to recognize a gain related to this transaction. The carrying value and earnings of the business are immaterial to the Corporation.

PARGESA

On March 11, 2020 Parjointco and Pargesa announced an agreement for a proposed transaction that would simplify the group structure. As per the agreement, a public exchange offer will be initiated by Parjointco for all Pargesa shares not already owned by Parjointco under which Pargesa shareholders will be entitled to receive 0.93 shares of GBL for each Pargesa bearer share they hold. Following the proposed transaction, it is anticipated that Pargesa will be delisted from the SIX Swiss Exchange and Parjointco is expected to retain de facto control and maintain approximately the same economic equity interest in GBL of 28%. The proposed transaction will be subject to Parjointco holding or having received shareholder acceptances with respect to at least 90% of Pargesa's total voting rights and is conditional upon GBL shareholders approving the implementation of double-voting rights at GBL's extraordinary shareholders meeting to be held on April 28, 2020.

NOTE 33 Subsequent Events (continued)

COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

NOTE 34 Segmented Information

The Corporation's reportable operating segments are Lifeco, IGM Financial and Pargesa. These reportable segments reflect Power Financial's management structure and internal financial reporting. The Corporation evaluates the performance based on the operating segment's contribution to earnings. The following provides a brief description of the three reportable operating segments:

- Lifeco is a financial services holding company with interests in life insurance, health insurance, retirement and investment management services, asset management and reinsurance businesses primarily in Canada, the United States and Europe.
- IGM Financial is a leading wealth and asset management company operating in Canada primarily within the advice segment of the financial services market. IGM earns revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenues from fees charged to its mutual funds for administrative services.
- Pargesa is held through Parjointco. Pargesa is a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialty solutions for industry; testing, inspection and certification; cement, aggregates and concrete; wines and spirits; design and distribution of sportswear; materials technology and recycling of precious metals; oil, gas and chemical industries; disposable hygiene products; supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors; operation of regional leisure parks; and provider of customer experience and business process outsourcing.

The column entitled "Corporate" is comprised of corporate activities of Power Financial and the results of Wealthsimple, Portag3 and Portag3 II. This column also includes consolidation elimination entries.

Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets.

The contribution to earnings of each segment includes the share of net earnings resulting from the investments that Lifeco and IGM have in each other as well as certain consolidation adjustments.

NOTE 34 Segmented Information (continued)

CONSOLIDATED NET EARNINGS

For the year ended December 31, 2019	Lifeco [1]	IGM [2]	Pargesa	Corporate	Total
Revenues					
Total net premiums	24,510	–	–	(21)	24,489
Net investment income	13,107	169	–	(29)	13,247
Fee income	7,081	3,051	–	(66)	10,066
Total revenues	44,698	3,220	–	(116)	47,802
Expenses					
Total paid or credited to policyholders	33,091	–	–	–	33,091
Commissions	2,429	1,101	–	(50)	3,480
Operating and administrative expenses	6,013	1,055	–	169	7,237
Financing charges	285	108	–	42	435
Total expenses	41,818	2,264	–	161	44,243
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,880	956	–	(277)	3,559
Share of earnings of investments in jointly controlled corporations and associates	–	13	193	5	211
Earnings before income taxes	2,880	969	193	(272)	3,770
Income taxes	373	220	–	8	601
Net earnings	2,507	749	193	(280)	3,169
Attributable to					
Non-controlling interests	928	295	–	(157)	1,066
Perpetual preferred shareholders	–	–	–	139	139
Common shareholders	1,579	454	193	(262)	1,964
	2,507	749	193	(280)	3,169

[1] Includes the loss on the reinsurance transaction with Protective Life of $247 million ($199 million after tax) (Note 3) and the impact of the $199 million decrease in the deferred income tax asset (Note 17).

[2] Results reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

TOTAL ASSETS AND LIABILITIES

December 31, 2019	Lifeco	IGM [2]	Pargesa	Corporate	Total
Investments and cash and cash equivalents	168,229	7,984	–	1,307	177,520
Investments in jointly controlled corporations and associates	53	857	3,954	38	4,902
Other assets	40,974	1,472	–	400	42,846
Goodwill and intangible assets	10,844	4,067	–	171	15,082
Investments on account of segregated fund policyholders	231,022	–	–	–	231,022
Total assets [1]	451,122	14,380	3,954	1,916	471,372
Total liabilities	425,624	10,892	–	1,144	437,660

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

[2] Assets reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2019	Canada	United States	Europe	Total
Investments and cash and cash equivalents	89,310	32,875	55,335	177,520
Investments in jointly controlled corporations and associates	706	194	4,002	4,902
Other assets	5,814	19,423	17,609	42,846
Goodwill and intangible assets	10,195	1,990	2,897	15,082
Investments on account of segregated fund policyholders	85,612	31,433	113,977	231,022
Total assets	191,637	85,915	193,820	471,372
Total revenues	24,279	(2,708)	26,231	47,802

NOTE 34 Segmented Information (continued)

CONSOLIDATED NET EARNINGS

For the year ended December 31, 2018	Lifeco	IGM [1]	Pargesa	Corporate	Total
Revenues					
Total net premiums	35,461	–	–	(21)	35,440
Net investment income	2,752	183	–	(113)	2,822
Fee income	5,819	3,037	–	(93)	8,763
Total revenues	44,032	3,220	–	(227)	47,025
Expenses					
Total paid or credited to policyholders	32,068	–	–	–	32,068
Commissions	2,474	1,099	–	(61)	3,512
Operating and administrative expenses	5,807	1,043	–	147	6,997
Financing charges	221	121	–	18	360
Total expenses	40,570	2,263	–	104	42,937
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,462	957	–	(331)	4,088
Share of earnings of investments in jointly controlled corporations and associates	–	29	57	8	94
Earnings before income taxes	3,462	986	57	(323)	4,182
Income taxes	387	210	–	5	602
Net earnings	3,075	776	57	(328)	3,580
Attributable to					
Non-controlling interests	1,074	330	–	(207)	1,197
Perpetual preferred shareholders	–	–	–	138	138
Common shareholders	2,001	446	57	(259)	2,245
	3,075	776	57	(328)	3,580

[1] Results reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

TOTAL ASSETS AND LIABILITIES

December 31, 2018	Lifeco	IGM [2]	Pargesa	Corporate	Total
Investments and cash and cash equivalents	177,013	8,639	–	1,151	186,803
Assets held for sale	897	–	–	–	897
Investments in jointly controlled corporations and associates	8	683	3,291	27	4,009
Other assets	25,941	1,259	–	125	27,325
Goodwill and intangible assets	10,984	4,028	–	163	15,175
Investments on account of segregated fund policyholders	209,527	–	–	–	209,527
Investments on account of segregated fund policyholders held for sale	3,319	–	–	–	3,319
Total assets [1]	427,689	14,609	3,291	1,466	447,055
Total liabilities	400,291	11,007	–	808	412,106

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

[2] Assets reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2018	Canada	United States	Europe	Total
Investments and cash and cash equivalents	84,522	47,522	54,759	186,803
Assets held for sale	–	–	897	897
Investments in jointly controlled corporations and associates	716	–	3,293	4,009
Other assets	4,486	4,497	18,342	27,325
Goodwill and intangible assets	10,102	2,130	2,943	15,175
Investments on account of segregated fund policyholders	76,633	31,816	101,078	209,527
Investments on account of segregated fund policyholders held for sale	–	–	3,319	3,319
Total assets	176,459	85,965	184,631	447,055
Total revenues	19,155	7,802	20,068	47,025

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Power Financial Corporation

Opinion

We have audited the consolidated financial statements of Power Financial Corporation (the "Corporation"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Benoit B. Patry.

Signed,
Deloitte LLP [1]

[1] CPA auditor, CA, public accountancy permit No. A110092

March 18, 2020

Montréal, Québec

FIVE-YEAR FINANCIAL SUMMARY

December 31, [in millions of Canadian dollars, except per share amounts] (unaudited)	2019	2018	2017	2016	2015
Consolidated Balance Sheets					
Cash and cash equivalents	6,272	5,624	5,321	4,396	4,188
Total assets	471,372	447,055	440,224	418,407	417,630
Shareholders' equity	20,815	21,580	20,513	19,481	19,473
Consolidated Statements of Earnings					
Revenues					
Total net premiums	24,489	35,440	33,880	31,125	24,501
Net investment income	13,247	2,822	7,610	10,203	4,319
Fee income	10,066	8,763	8,497	7,794	7,692
Total revenues	47,802	47,025	49,987	49,122	36,512
Expenses					
Total paid or credited to policyholders	33,091	32,068	35,643	34,675	22,842
Commissions	3,480	3,512	3,712	3,590	3,133
Operating and administrative expenses	7,237	6,997	7,002	6,380	5,883
Financing charges	435	360	432	412	413
Total expenses	44,243	42,937	46,789	45,057	32,271
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,559	4,088	3,198	4,065	4,241
Share of earnings (losses) of investments in jointly controlled corporations and associates	211	94	200	(98)	224
Earnings before income taxes	3,770	4,182	3,398	3,967	4,465
Income taxes	601	602	584	581	679
Net earnings	3,169	3,580	2,814	3,386	3,786
Attributable to					
Non-controlling interests	1,066	1,197	964	1,343	1,337
Perpetual preferred shareholders	139	138	133	124	130
Common shareholders	1,964	2,245	1,717	1,919	2,319
	3,169	3,580	2,814	3,386	3,786
Per share					
Net earnings attributable to common shareholders	2.89	3.15	2.41	2.69	3.25
Adjusted net earnings attributable to common shareholders [1]	3.40	3.20	2.99	2.99	3.14
Dividends declared on common shares	1.82	1.73	1.65	1.57	1.49
Book value per common share	27.08	26.26	24.77	23.69	23.69
Market price (Common shares)					
High	36.02	34.88	37.00	34.70	38.78
Low	25.45	25.21	31.91	29.02	30.28
Year-end	34.94	25.83	34.54	33.56	31.81

[1] Please refer to the annual MD&A for non-IFRS financial measure definition.

QUARTERLY FINANCIAL INFORMATION

[in millions of Canadian dollars, except per share amounts] (unaudited)	Fourth quarter	Third quarter	Second quarter	First quarter
2019				
Total revenues	11,485	15,158	3,511	17,648
Net earnings	644	975	709	841
Net earnings attributable to common shareholders	401	584	443	536
Earnings per share attributable to common shareholders				
– Basic	0.60	0.88	0.66	0.75
– Diluted	0.60	0.88	0.66	0.75
2018				
Total revenues	12,438	12,787	11,360	10,440
Net earnings	780	836	1,046	918
Net earnings attributable to common shareholders	478	523	658	586
Earnings per share attributable to common shareholders				
– Basic	0.67	0.74	0.92	0.82
– Diluted	0.67	0.73	0.92	0.82

Great-West Lifeco Inc.

PART C

Management's Discussion and Analysis

PAGE C 2

Financial Statements and Notes

PAGE C 80

Please note that the bottom of each page in Part C contains two different page numbers. A page number with the prefix "C" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by Great-West Lifeco Inc.

The attached documents concerning Great-West Lifeco Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Cautionary Note Regarding Forward-Looking Information. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, financial performance and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three and twelve months ended December 31, 2019 and includes a comparison to the corresponding periods in 2018, to the three months ended September 30, 2019, and to the Company's financial condition as at December 31, 2018. This MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States (U.S.) and Europe.

Businesses of Lifeco

Lifeco has operations in Canada, the United States and Europe through The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A), Putnam Investments, LLC (Putnam) and Irish Life Group Limited (Irish Life).

On April 3, 2019, Lifeco announced that its three Canadian life insurance companies, The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life) and Canada Life, were moving to one brand in Canada: Canada Life. Canada Life became the brand under which the organization creates, delivers and communicates products and services in Canada across all of its lines of business. On January 1, 2020, Great-West Life, London Life, Canada Life and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc. amalgamated into a single life insurance company, The Canada Life Assurance Company.

In Canada, Canada Life offers a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations through two primary business units: Individual Customer and Group Customer. Through the Individual Customer business unit, the Company provides life, disability and critical illness insurance products as well as wealth savings and income products and services to individual customers. Through the Group Customer business unit, the Company provides life, accidental death and dismemberment, critical illness, disability, health and dental protection, creditor insurance as well as retirement savings and annuity products and other specialty products to group customers in Canada. The products are distributed through a multi-channel network of brokers, advisors, managing general agencies and financial institutions including Freedom 55 Financial™ and Wealth and Insurance Solutions Enterprise.

In the U.S., Empower Retirement is a leading provider of employer-sponsored retirement savings plans in the public/non-profit and corporate sectors that offers employer-sponsored defined contribution plans, administrative and recordkeeping services, individual retirement accounts, fund management, as well as investment and advisory services. Its products and services are marketed nationwide through its sales force, brokers, consultants, advisors, third-party administrators and financial institutions. Putnam provides investment management, certain administrative functions and distribution services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds, which are offered to individual and institutional investors.

The Europe segment comprises two distinct business units: Insurance & Annuities, which offers protection and wealth management products, including payout annuity products, through subsidiaries of Canada Life in the United Kingdom (U.K.), the Isle of Man and Germany as well as through Irish Life in Ireland; and Reinsurance, which operates primarily in the U.S., Barbados and Ireland. Reinsurance products are provided through Canada Life, London Life and their subsidiaries.

Lifeco currently has no other material holdings and carries on no business or activities unrelated to its holdings in Great-West Life, London Life, Canada Life, GWL&A, Putnam, Irish Life and their subsidiaries. However, Lifeco is not restricted to investing in those companies and may make other investments in the future.

Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's consolidated financial statements for the period ended December 31, 2019.

Cautionary Note Regarding Forward-Looking Information

This MD&A may contain forward-looking information. Forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and other similar expressions or negative versions thereof. These statements include, without limitation, statements about the Company's operations, business, financial condition, expected financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by the Company, including statements made with respect to the expected benefits of acquisitions and divestitures, expected capital management activities and use of capital, expected cost reductions and savings and the impact of regulatory developments on the Company's business strategy and growth objectives. Forward-looking statements are based on expectations, forecasts, estimates, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and the reader is cautioned that actual events and results could differ materially from those expressed or implied by forward-looking statements. Material factors and assumptions that were applied in formulating the forward-looking information contained herein include the assumption that the business and economic conditions affecting the Company's operations will continue substantially in their current state, including, without limitation, with respect to customer behaviour, the Company's reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, reinsurance arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets, business competition and other general economic, political and market factors in North America and internationally. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. Other important factors and assumptions that could cause actual results to differ materially from those contained in forward-looking statements include customer responses to new products, impairments of goodwill and other intangible assets, the Company's ability to execute strategic plans and changes to strategic plans, technological changes, breaches or failure of information systems and security (including cyber attacks), payments required under investment products, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third party service providers, the Company's ability to complete strategic transactions and integrate acquisitions and unplanned material changes to the Company's facilities, customer and employee relations or credit arrangements. The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in this MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", which, along with other filings, is available for review at www.sedar.com. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking information. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking information whether as a result of new information, future events or otherwise.

Cautionary Note Regarding Non-IFRS Financial Measures

This MD&A contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "adjusted net earnings", "return on common shareholder's equity", "adjusted return on common shareholder's equity", "core net earnings", "constant currency basis", "impact of currency movement", "premiums and deposits", "sales", "assets under management" and "assets under administration". Non-IFRS financial measures are used to provide management and investors with additional measures of performance to help assess results where no comparable IFRS measure exists. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and are not directly comparable to similar measures used by other companies. Refer to the "Non-IFRS Financial Measures" section in this MD&A for the appropriate reconciliations of these non-IFRS financial measures to measures prescribed by IFRS as well as additional details on each measure.

Consolidated Operating Results

Selected consolidated financial information

(in Canadian $ millions, except for per share amounts)	As at or for the three months ended Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	For the twelve months ended Dec. 31 2019	Dec. 31 2018
Earnings					
Net earnings – common shareholders	**$ 513**	$ 730	$ 710	**$ 2,359**	$ 2,961
Adjustments [1] [4]	**227**	–	–	**426**	56
Adjusted net earnings – common shareholders [1] [4]	**740**	730	710	**2,785**	3,017
Per common share					
Basic earnings	**0.552**	0.786	0.719	**2.494**	2.996
Adjusted basic earnings [1] [4]	**0.797**	0.786	0.719	**2.944**	3.052
Dividends paid	**0.413**	0.413	0.389	**1.652**	1.556
Book value	**21.53**	21.02	22.08		
Return on common shareholders' equity [2]	**11.7%**	12.4%	14.0%		
Adjusted return on common shareholders' equity [1] [2] [4]	**13.8%**	13.4%	14.3%		
Total premiums and deposits [1]	**$ 39,096**	$ 36,417	$ 37,583	**$ 150,638**	$ 139,262
Fee and other income	**1,515**	1,496	1,420	**7,081**	5,819
Net policyholder benefits, dividends and experience refunds	**10,003**	8,468	8,496	**36,415**	31,566
Total assets per financial statements	**$ 451,167**	$ 446,626	$ 427,689		
Proprietary mutual funds and institutional assets [1]	**320,548**	308,425	281,664		
Total assets under management [1]	**771,715**	755,051	709,353		
Other assets under administration [1]	**857,966**	841,700	689,520		
Total assets under administration [1]	**$1,629,681**	$1,596,751	$1,398,873		
Total equity	**$ 25,543**	$ 25,157	$ 27,398		
The Great-West Life Assurance Company consolidated Life Insurance Capital Adequacy Test Ratio [3]	**135%**	139%	140%		

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Refer to the "Return on Equity" section of this document for additional details.

(3) The Life Insurance Capital Adequacy Test (LICAT) ratio is based on the consolidated results of The Great-West Life Assurance Company, Lifeco's major Canadian operating subsidiary. Refer to the "Capital Management and Adequacy" section for additional details.

(4) In 2018, adjustments were $56 million of restructuring costs relating to the Company's U.K. operations. The following adjustments were made for the twelve months ended December 31, 2019:

2019 Adjustments	Segment United States	Europe	Total	EPS Impact	Annual Financial Statement Note Reference
Q2 Net charge on sale, via reinsurance, of a U.S. business	$ 199	$ –	$ 199	$ 0.212	Note 3
Q4 Revaluation of a deferred tax asset	199	–	199	0.215	Note 27
Q4 Restructuring costs	36	–	36	0.039	Note 5
Q4 Net gain on Scottish Friendly transaction	–	(8)	(8)	(0.009)	Note 4
Total Q4 2019 Adjustments	**235**	**(8)**	**227**	**0.245**	
Total 2019 Adjustments	**$ 434**	**$ (8)**	**$ 426**	**$ 0.450**	

Lifeco 2019 Highlights

Financial Performance

- The Company maintained its strong capital position as evidenced by a Life Insurance Capital Adequacy Test (LICAT) ratio at December 31, 2019 of 135% for Great-West Life, Lifeco's major Canadian operating subsidiary, which exceeded the Office of the Superintendent of Financial Institutions' (OSFI) Supervisory Target Total Ratio of 100%, and Supervisory Minimum Total Ratio of 90%.
- For the twelve months ended December 31, 2019, net earnings attributable to common shareholders (net earnings) were $2,359 million, compared to $2,961 million for the previous year. In 2019, Lifeco's net earnings include a net charge of $199 million relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life Insurance Company (Protective Life), the impact of the revaluation of a deferred tax asset of $199 million and restructuring costs of $36 million, both related to Putnam, and a gain of $8 million related to the completion of the sale of a heritage block of policies to Scottish Friendly. In 2018, net earnings were impacted by restructuring costs of $56 million related to the Company's U.K. operations.
- Excluding these items, 2019 adjusted net earnings of $2,785 million were down $232 million or 8% compared to 2018 adjusted net earnings of $3,017 million, reflecting growth in the Europe and U.S. segments offset by lower earnings in the Canada segment. On a per share basis, this represents $2.944 per common share compared to $3.052 per common share a year ago, a decrease of 4%.
- In the first half of 2019, the Company completed the sale of the U.S. individual life business. As a result, the U.S. individual life business contributed $63 million in 2019 to Lifeco's adjusted net earnings for the twelve months ended December 31, 2019 down from $157 million in 2018 which included a full year of earnings. Recognizing capital capacity arising from this sale and in order to manage earnings dilution, the Company completed a substantial issuer bid, purchasing and subsequently canceling 59,700,974 common shares for an aggregate purchase price of $2 billion in the second quarter of 2019. While the U.S. transaction reduced net earnings in the second half of 2019, the substantial issuer bid reduced the number of shares outstanding and contributed to growth in adjusted earnings per share.
- In 2019, Lifeco's quarterly common share dividend increased 6% to $0.413 per share.
- The Company's financial leverage ratio at December 31, 2019 was 27.6%, comparable to the prior year, providing financial flexibility to invest in organic growth and acquisition strategies.

Strategic Highlights

- In Canada, the Company announced its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, were moving to one brand in Canada: Canada Life. Following the required approvals, the Company also proceeded with the amalgamation of Great-West Life, London Life and Canada Life, and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., into a single life insurance company, The Canada Life Assurance Company. This amalgamation was effective January 1, 2020 and will create operating efficiencies and simplify the Company's capital structure to allow for more efficient use of capital.
- Effective June 1, 2019, the Company completed the sale, via indemnity reinsurance, of substantially all of its U.S. individual life insurance and annuity business to Protective Life who now assumes the economics and risks associated with the reinsured business. The transaction resulted in an after-tax transaction value of approximately $1.6 billion (US$1.2 billion), excluding one-time expenses. The transaction value included a ceding commission of $1,080 million (US$806 million) and a capital release of approximately $530 million (US$400 million). The business transferred included bank-owned and corporate-owned life insurance, single premium life insurance, individual annuities as well as closed block life insurance and annuities. The Company recognized a loss related to this transaction of $199 million (US$148 million). The liabilities transferred and ceding commission received at the closing of this transaction are subject to future adjustments and are currently under review. GWL&A has retained a block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.

  In the U.S. segment, the Company continues to focus on the defined contribution retirement and asset management markets. Empower Retirement participants grew 7% to 9.4 million at December 31, 2019 compared to December 31, 2018. The assets under administration grew 30% over the year to US$673 billion on December 31, 2019.

  During 2019, Putnam undertook actions to realign its resources to better position itself for current and future opportunities. These actions included technology modernization, product consolidation, a reduction in staff and facilities reorganization and resulted in restructuring charges which reduced net earnings by $36 million (US$28 million). The Company expects to realize US$33 million in pre-tax annual operating expense savings as a result of the restructuring activities by the end of the fourth quarter of 2020. As of December 31, 2019, approximately US$24 million in pre-tax annual operating expense savings have been achieved.
- In Europe, the Company continued to expand its business with several tuck-in acquisitions. Subsequent to December 31, 2019, on February 3, 2020, Irish Life Group Limited, a subsidiary of the Company, through its subsidiary Invesco Limited, completed the acquisition of Acumen & Trust DAC, an Irish financial services consultancy firm expanding into the areas of employee benefits consulting and individual financial advice. On October 21, 2019, the Company's German business completed its acquisition of an interest in Jung DMS & Cie AG (JDC), one of the leading broker pools in Germany expanding the Company's footprint in the German market.

Effective November 1, 2019, the Company completed the previously announced sale of a heritage block of policies to Scottish Friendly. The Company advanced restructuring initiatives in its U.K. operations, that were announced in the prior year, relating to the integration of Retirement Advantage as well as the sale to Scottish Friendly. On December 18, 2019, the Company received regulatory approval to transfer legal ownership of all insurance policies from Retirement Advantage to Canada Life Limited, a subsidiary of the Company, which will facilitate the achievement of a portion of these expected savings. Subsequent to December 31, 2019, on February 10, 2020, Irish Life announced the sale of Irish Progressive Services International Limited, a wholly owned subsidiary whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The proposed transaction will be subject to customary closing conditions including receipt of required regulatory approvals and is expected to be completed in the second half of 2020. The Company expects to recognize a gain related to this transaction. This business did not have a material impact on the Company's net earnings for the twelve months ended December 31, 2019.

The Reinsurance business unit continued to build its presence in the longevity market, signing several new European long-term longevity contracts including a transaction in the fourth quarter of 2019 covering approximately €12 billion of pension liabilities, while simultaneously expanding its structured solutions portfolio and product offering.

Outlook for 2020

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

- Lifeco is continuing to focus on its core strategies: delivering financial security and wellness through the workplace, providing advice-centered wealth management, delivering strong investment and asset management and leveraging risk and capital management expertise. The Company will invest strategically – both organically and through acquisitions – to drive growth and productivity, while maintaining strong risk and expense discipline, to deliver sustainable long-term value to its customers and shareholders.

  In 2020, the Company will remain focused on future regulatory changes, including preparing for the implementation of accounting changes related to IFRS 17, *Insurance Contracts*, which is currently proposed to be effective on January 1, 2022. The Company will be investing in updating processes and systems throughout the implementation period.
- In Canada, with the move to one brand, Canada Life, the Company will continue to invest in innovative technologies, focus on strategies to enhance growth and its competitive position and identify ways to further streamline its products, marketing, operations and structure as it delivers its products. Specifically, in its Group business, Canada Life will continue to invest in innovative member service tools and coverage solutions, allowing for greater personalization of experience and to support its customers financial security and wellness in the workplace. In its Individual business, Canada Life will continue the roll-out of market-leading solutions and digital tools that improve the client and advisor experience and provide personalized wealth solutions.
- In the U.S., focus will continue on the defined contribution retirement market and building awareness for the Empower Retirement brand. Empower Retirement is expected to grow, gain efficiencies and enhance the overall customer experience through continued focus on investment in innovation. At Putnam, the focus will continue to be on driving growth and market share through strong investment performance, service excellence and digital capabilities while optimizing business economics.
- In Europe, the Company has taken the necessary steps to prepare for the potential immediate impacts of Brexit. Contingency plans are in place and ongoing market uncertainty is being closely monitored. The Company does not currently anticipate a material impact to its Europe businesses.

  The Company intends to invest in additional system functionality and digital capacities and will expand the range of products offered in the U.K. in both the group and individual marketplace. In Ireland, deepening and broadening the market leading retail, corporate and investment management businesses, including products to support customers' financial security and wellness, will continue to be the focus. In Germany, investments will continue to implement technology to drive a better customer offering and processing efficiencies as well as lay the foundation for enhanced future growth capabilities.

  Through its leading market position, the reinsurance business unit will continue to focus on expanding strategies into other key markets and deploying capital to build on its diversified multi-niche base to grow and continue to meet client needs.

Net Earnings

Consolidated net earnings of Lifeco include the net earnings of Great-West Life and its operating subsidiaries, London Life, Canada Life and Irish Life; GWL&A and Putnam; together with Lifeco's Corporate operating results. Effective January 1, 2020, Great-West Life, London Life, Canada Life and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., amalgamated into a single life insurance company, The Canada Life Assurance Company.

Lifeco's net earnings for the three month period ended December 31, 2019 were $513 million compared to $710 million a year ago and $730 million in the previous quarter. On a per share basis, this represents $0.552 per common share ($0.552 diluted) for the fourth quarter of 2019 compared to $0.719 per common share ($0.719 diluted) a year ago and $0.786 per common share ($0.785 diluted) in the previous quarter. Excluding the impact of the revaluation of a deferred tax asset, restructuring costs and the net gain on the Scottish Friendly transaction, which totalled $227 million, adjusted net earnings for the fourth quarter of 2019 were $740 million or $0.797 per common share.

For the twelve months ended December 31, 2019, Lifeco's net earnings were $2,359 million compared to $2,961 million a year ago. On a per share basis, this represents $2.494 per common share ($2.493 diluted) for 2019 compared to $2.996 per common share ($2.994 diluted) a year ago.

Included in Lifeco's net earnings for the twelve months ended December 31, 2019 were adjustments of $426 million related to items discussed for the in-quarter results as well as a net charge relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life. Net earnings in 2018 included restructuring costs of $56 million related to the Company's U.K. operations. Excluding the impact of these items, adjusted net earnings for the twelve months ended December 31, 2019 were $2,785 million or $2.944 per common share, compared to $3,017 million or $3.052 per common share a year ago.

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Canada					
Individual Customer	**$ 87**	$ 85	$ 171	**$ 431**	$ 685
Group Customer	**114**	206	144	**632**	630
Canada Corporate	**(13)**	9	(5)	**(12)**	(40)
	188	300	310	**1,051**	1,275
United States					
Financial Services [1]	**100**	63	48	**278**	240
Asset Management	**18**	13	(29)	**33**	(61)
U.S. Corporate [2] [3]	**(239)**	1	–	**(236)**	52
Reinsured Insurance & Annuity Business [1] [3]	**–**	–	36	**(136)**	157
	(121)	77	55	**(61)**	388
Europe					
Insurance & Annuities	**334**	306	271	**1,050**	1,036
Reinsurance	**124**	55	89	**353**	377
Europe Corporate [3]	**(6)**	(4)	(11)	**(13)**	(102)
	452	357	349	**1,390**	1,311
Lifeco Corporate	**(6)**	(4)	(4)	**(21)**	(13)
Net earnings – common shareholders	**$ 513**	$ 730	$ 710	**$ 2,359**	$ 2,961
Adjustments [3] [4]					
Revaluation of a deferred tax asset	**199**	–	–	**199**	–
Restructuring costs	**36**	–	–	**36**	56
Net gain on Scottish Friendly transaction	**(8)**	–	–	**(8)**	–
Net charge on sale, via reinsurance, of a U.S. business	**–**	–	–	**199**	–
Adjusted net earnings – common shareholders [4]	**$ 740**	$ 730	$ 710	**$ 2,785**	$ 3,017

(1) Reinsured Insurance & Annuity Business reflects business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019. Comparative figures have been adjusted to reflect current presentation.

(2) U.S. Corporate net earnings for the second quarter of 2018 included a net positive impact of $60 million arising from refinancing in the U.S. segment completed in the second quarter of 2018.

(3) Adjustments to net earnings are included in Corporate business units of the U.S. and Europe segments as well as the Reinsured Insurance & Annuity Business unit.

(4) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

The information in the table above is a summary of results for net earnings of the Company. Additional commentary regarding net earnings is included in the "Segmented Operating Results" section.

Market Impacts

Interest Rate Environment

Interest rates in countries where the Company operates decreased during 2019. The net change in interest rates did not impact the range of interest rate scenarios tested through the valuation process and had no material impact on net earnings. The net change in interest rates for the quarter and year-to-date did not have a material impact on Great-West Life's consolidated LICAT ratio.

In order to mitigate the Company's exposure to interest rate fluctuations, the Company follows disciplined processes for matching asset and liability cash flows. As a result, the impact of changes in fair values of bonds backing insurance contract liabilities recorded through profit or loss is mostly offset by a corresponding change in the insurance contract liabilities. The Company also regularly updates pricing for new products to reflect the interest environment.

The Company's sensitivity to interest rate fluctuations is detailed in the "Accounting Policies – Summary of Critical Accounting Estimates" section.

Equity Markets

In the regions where the Company operates, average equity market levels in the fourth quarter of 2019 were higher compared to the same period in 2018 and ended the quarter at higher market levels compared to September 30, 2019. Comparing the fourth quarter of 2019 to the fourth quarter of 2018, average equity market levels were up by 12% in Canada (as measured by S&P TSX), 15% in the U.S. (as measured by S&P 500), 5% in the U.K. (as measured by FTSE 100) and 15% in broader Europe (as measured by Eurostoxx 50). The major equity indices finished the fourth quarter up 2% in Canada, 9% in the U.S., 2% in the U.K. and 5% in broader Europe, compared to September 30, 2019.

Relative to the Company's expectation, the change in average market levels and market volatility had a negligible impact on net earnings during the fourth quarter of 2019 and a $11 million positive impact year-to-date in 2019 (negative impact of $50 million in the fourth quarter of 2018 and $47 million year-to-date in 2018), related to asset-based fee income and the costs related to guarantees of death, maturity or income benefits within certain wealth management products offered by the Company.

In addition, the impact on net earnings was positive $5 million in the fourth quarter of 2019 and $46 million year-to-date in 2019 (negative impact of $14 million in the fourth quarter of 2018 and $4 million year-to-date in 2018), primarily related to seed money investments held in the U.S. Asset Management and Canada Corporate business units.

The change in equity markets negatively impacted the fourth quarter 2019 net earnings by $9 million and $36 million year-to-date (negative impact of $8 million in the fourth quarter of 2018 and $2 million year-to-date in 2018), primarily as a result of an unfavourable tax related item in the Europe segment in 2019. Included in 2018 was the impact of actuarial assumption changes and annuity reserve strengthening, partly offset by a favourable tax related item in the Europe segment.

Foreign Currency

Throughout this document a number of terms are used to highlight the impact of foreign exchange on results, such as: "constant currency basis", "impact of currency movement", and "effect of currency translation fluctuations". These measures have been calculated using the average or period end rates, as appropriate, in effect at the date of the comparative period. This measure provides useful information as it facilitates the comparability of results between periods.

The average currency translation rate for the fourth quarter of 2019 was comparable for the U.S. dollar and British pound and decreased for the euro compared to the fourth quarter of 2018. The overall impact of currency movement on the Company's net earnings for the three month period ended December 31, 2019 was a decrease of $6 million ($26 million year-to-date) compared to translation rates a year ago.

From September 30, 2019 to December 31, 2019, the market rate at the end of the reporting period used to translate U.S. dollar assets and liabilities to the Canadian dollar decreased, while the euro and British pound increased. The movements in end-of-period market rates resulted in unrealized foreign exchange gains from the translation of foreign operations, including related hedging activities, of $284 million in-quarter ($475 million net unrealized loss year-to-date) recorded in other comprehensive income.

Translation rates for the reporting period and comparative periods are detailed in the "Translation of Foreign Currency" section.

Credit Markets

Credit markets impact on common shareholders' net earnings (after-tax)

	Impairment (charges) / recoveries	Changes in provisions for future credit losses in insurance contract liabilities	Total	Impairment (charges) / recoveries	Changes in provisions for future credit losses in insurance contract liabilities	Total
	For the three months ended December 31, 2019			For the twelve months ended December 31, 2019		
Canada	$ –	$ 1	$ 1	$ –	$ (7)	$ (7)
United States	5	(3)	2	6	(3)	3
Europe	–	(11)	(11)	(20)	9	(11)
Total	**$ 5**	**$ (13)**	**$ (8)**	**$ (14)**	**$ (1)**	**$ (15)**
	For the three months ended December 31, 2018			For the twelve months ended December 31, 2018		
Total	$ (2)	$ (15)	$ (17)	$ 3	$ (40)	$ (37)

In the fourth quarter of 2019, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders' net earnings by $5 million ($2 million net charge in the fourth quarter of 2018). Changes in credit ratings in the Company's fixed income portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $13 million ($15 million negative impact in the fourth quarter of 2018), primarily due to downgrades of various corporate bond holdings.

For the twelve months ended December 31, 2019, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders' net earnings by $14 million ($3 million net recovery in 2018). Net charges on impaired investments reflect net allowances for credit losses included in net investment income and the associated release of actuarial provisions for future credit losses, as applicable. Charges for the twelve months ended December 31, 2019 were primarily driven by impairment charges on mortgage loans as a result of a U.K. retail tenant entering a prepackaged administration, which was followed by a Company Voluntary Arrangement (CVA). Changes in credit ratings in the Company's fixed income portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $1 million year-to-date ($40 million net negative impact in 2018). The $40 million net negative impact for the twelve months ended December 31, 2018 included $16 million related to downgrades to mortgages on certain U.K. retail properties.

These credit impacts do not reflect the impact to insurance contract liabilities related to the decline in the expected cash flows relating to the mortgage loans and investment properties where certain U.K. retailers occupying the properties continued to experience financial difficulties as recorded in the results of the second quarter of 2019. The related negative impact to common shareholders' net earnings was $68 million and is discussed as part of the United Kingdom property related exposures in the "Invested Assets" section.

Actuarial Assumption Changes and Management Actions

During the fourth quarter of 2019, the negative impact of actuarial assumption updates and management actions on adjusted net earnings was $78 million, compared to positive impacts of $83 million for the same quarter last year and positive impacts of $81 million for the previous quarter.

In Canada, net earnings were negatively impacted by $82 million, primarily due to updated policyholder behaviour, annuitant mortality and morbidity assumptions. In Europe, adjusted net earnings were negatively impacted by $21 million, primarily due to updated expense and morbidity assumptions, partially offset by updated annuitant mortality assumptions. In the U.S., adjusted net earnings were positively impacted by $25 million, primarily due to the impact of a partial settlement of an employee pension plan and an update to economic assumptions, partially offset by updated life mortality assumptions.

For the twelve months ended December 31, 2019, actuarial assumption changes and management actions resulted in a positive adjusted net earnings impact of $170 million, compared to $616 million for the same period in 2018. Including the impact of management actions and actuarial assumption changes relating to the Scottish Friendly transaction and the reinsurance transaction with Protective Life discussed for Q2 2019, management actions and actuarial assumption changes resulted in a positive adjusted net earnings impact of $142 million for 2019. Year-to-date 2019 actuarial assumption changes include the impact of the Canadian Actuarial Standards Board's revised standards for the valuation of insurance contract liabilities, which were effective October 15, 2019. The revised standards include decreases to ultimate reinvestment rates and revised calibration criteria for stochastic risk-free interest rates and resulted in a negative adjusted net earnings impact of $48 million in the Canada and U.S. segments in the third quarter of 2019.

Premiums and Deposits and Sales

Premiums and deposits (1)

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Canada					
Individual Customer	**$ 3,110**	$ 2,490	$ 2,862	**$ 10,619**	$ 10,461
Group Customer	**4,119**	4,563	3,776	**16,727**	15,837
	7,229	7,053	6,638	**27,346**	26,298
United States					
Financial Services (2)	**3,150**	3,071	2,595	**11,783**	10,375
Asset Management	**15,983**	14,360	17,483	**57,299**	59,848
Reinsured Insurance & Annuity Business (2)	**347**	239	510	**1,393**	2,252
	19,480	17,670	20,588	**70,475**	72,475
Europe					
Insurance & Annuities	**7,931**	7,596	6,485	**35,374**	26,985
Reinsurance	**4,456**	4,098	3,872	**17,443**	13,504
	12,387	11,694	10,357	**52,817**	40,489
Total premiums and deposits	**$ 39,096**	$ 36,417	$ 37,583	**$ 150,638**	$ 139,262

Sales (1)

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Canada	**$ 3,609**	$ 3,520	$ 3,447	**$ 13,249**	$ 13,186
United States	**31,781**	31,245	32,080	**163,087**	105,948
Europe – Insurance & Annuities	**6,566**	7,098	5,972	**31,976**	24,481
Total sales	**$ 41,956**	$ 41,863	$ 41,499	**$ 208,312**	$ 143,615

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Reinsured Insurance & Annuity Business reflects business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019. For the twelve months ended December 31, 2019, premiums and deposits exclude the initial ceded premium of $13,889 million related to the transfer. Comparative figures have been adjusted to reflect current presentation.

The information in the table above is a summary of results for the Company's total premiums and deposits and sales. Additional commentary regarding premiums and deposits and sales is included in the "Segmented Operating Results" section.

Net Investment Income

Net investment income

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Investment income earned (net of investment properties expenses)	**$ 1,388**	$ 1,470	$ 1,653	**$ 5,965**	$ 6,377
Allowances for credit losses on loans and receivables	**(2)**	–	–	**(50)**	(4)
Net realized gains	**119**	28	13	**412**	113
Regular investment income	**1,505**	1,498	1,666	**6,327**	6,486
Investment expenses	**(43)**	(46)	(34)	**(166)**	(128)
Regular net investment income	**1,462**	1,452	1,632	**6,161**	6,358
Changes in fair value through profit or loss	**(1,766)**	2,102	(398)	**6,946**	(3,606)
Net investment income	**$ (304)**	$ 3,554	$ 1,234	**$ 13,107**	$ 2,752

Net investment income in the fourth quarter of 2019, which includes changes in fair value through profit or loss, decreased by $1,538 million compared to the same quarter last year. The changes in fair value in the fourth quarter of 2019 were a decrease of $1,766 million compared to $398 million for the fourth quarter of 2018. In the fourth quarter of 2019, the net decrease to fair values was primarily due to an increase in bond yields across all geographies. In the fourth quarter of 2018, the net decrease to fair values was primarily due to a decline in Canadian equity markets, partially offset by a decline in bond yields across all geographies.

Regular net investment income in the fourth quarter of 2019 of $1,462 million, which excludes changes in fair value through profit or loss, decreased by $170 million compared to the same quarter last year. The decrease was primarily due to lower interest on bond and mortgage investments relating to U.S. segment assets transferred under the indemnity reinsurance agreement with Protective Life in the second quarter of 2019, partially offset by higher net realized gains primarily driven by early mortgage redemptions. Net realized gains include gains on available-for-sale securities of $24 million for the fourth quarter of 2019 compared to $1 million for the same quarter last year.

For the twelve months ended December 31, 2019, net investment income increased by $10,355 million compared to the same period last year. The changes in fair value for the twelve month period in 2019 were an increase of $6,946 million compared to a decrease of $3,606 million during the same period in 2018. The changes in fair value were primarily due to a decrease in bond yields across all geographies and an increase in Canadian equity markets in 2019. In 2018, there was an increase in bond yields across all geographies and a decrease in Canadian equity markets.

Regular net investment income for the twelve months ended December 31, 2019 of $6,161 million decreased by $197 million compared to the same period last year. The decrease was primarily due to lower interest on bond and mortgage investments relating to the transaction with Protective Life discussed for the in-quarter results and higher net allowances for credit losses, partially offset by higher net realized gains. For the twelve months ended December 31, 2019, net allowances for credit losses on loans and receivables of $50 million primarily reflect the impact of an increase to net allowances for mortgage loans, primarily related to a U.K. retail tenant entering a prepackaged administration in the second quarter of 2019. Higher net realized gains for the twelve months ended December 31, 2019 were primarily driven by U.S. segment assets transferred under the transaction with Protective Life in the second quarter of 2019, which were offset by changes in insurance contract liabilities and subsequently ceded to Protective Life as part of the transaction. Net realized gains include gains on available-for-sale securities of $76 million for the twelve months ended December 31, 2019 compared to net realized losses of $4 million for the same period last year.

Net investment income in the fourth quarter of 2019 decreased by $3,858 million compared to the previous quarter, primarily due to net decreases in fair values of $1,766 million in the fourth quarter of 2019 compared to net increases in fair values of $2,102 million in the previous quarter. The net change in fair value was primarily due to an increase in bond yields across all geographies during the fourth quarter of 2019 compared to a decrease in bond yields across all geographies in the third quarter of 2019.

Fee and Other Income

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, as well as administrative services only (ASO) contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Canada					
Segregated funds, mutual funds and other	**$ 404**	$ 396	$ 378	**$ 1,561**	$ 1,540
ASO contracts	**53**	51	50	**205**	196
	457	447	428	**1,766**	1,736
United States					
Segregated funds, mutual funds and other	**679**	665	644	**2,687**	2,603
Life insurance and annuity reinsurance ceding commission [1]	**–**	–	–	**1,080**	–
	679	665	644	**3,767**	2,603
Europe					
Segregated funds, mutual funds and other	**379**	384	348	**1,548**	1,480
Total fee and other income	**$ 1,515**	$ 1,496	$ 1,420	**$ 7,081**	$ 5,819

(1) For the twelve months ended December 31, 2019, fee and other income includes a ceding commission of $1,080 million related to the Protective Life transaction.

The information in the table above is a summary of gross fee and other income for the Company. Excluding the ceding commission related to the Protective Life transaction, fee and other income for the twelve months ended December 31, 2019 was $6,001 million. Additional commentary regarding fee and other income is included in the "Segmented Operating Results" section.

Net Policyholder Benefits, Dividends and Experience Refunds

Net policyholder benefits, dividends and experience refunds

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Canada	**$ 2,514**	$ 2,328	$ 2,272	**$ 9,684**	$ 9,324
United States	**1,187**	933	1,172	**4,412**	4,592
Europe	**6,302**	5,207	5,052	**22,319**	17,650
Total	**$10,003**	$ 8,468	$ 8,496	**$36,415**	$ 31,566

Net policyholder benefits, dividends and experience refunds include life and health claims, policy surrenders, maturities, annuity payments, segregated fund guarantee payments, policyholder dividends and experience refund payments. The amounts do not include benefit payments for ASO contracts, segregated funds or mutual funds.

For the three months ended December 31, 2019, net policyholder benefits, dividends and experience refunds were $10.0 billion, an increase of $1.5 billion from the same period in 2018 driven by higher net policyholder benefits. The increase in benefit payments was primarily due to new reinsurance agreements and higher volumes relating to existing business in Europe.

For the twelve months ended December 31, 2019, net policyholder benefits, dividends and experience refunds were $36.4 billion, an increase of $4.8 billion from the same period in 2018 driven by higher net policyholder benefits. The increase in benefit payments was primarily due to new reinsurance agreements and higher volumes relating to existing business in Europe, partially offset by higher ceded policyholder benefits in the U.S. as a result of the sale, via indemnity reinsurance, on June 1, 2019 to Protective Life.

Compared to the previous quarter, net policyholder benefits, dividends and experience refunds increased by $1.5 billion, primarily due to the same reasons discussed for the in-quarter results.

Other Benefits and Expenses

Other benefits and expenses [1]

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Operating and administrative expenses	**$ 1,298**	$ 1,258	$ 1,311	**$ 5,231**	$ 5,033
Commissions	**650**	571	673	**2,429**	2,474
Premium taxes	**128**	123	128	**506**	495
Financing charges	**71**	70	70	**285**	221
Amortization of finite life intangible assets and impairment reversal	**60**	57	59	**224**	212
Restructuring expenses	**52**	–	–	**52**	67
Total	**$ 2,259**	$ 2,079	$ 2,241	**$ 8,727**	$ 8,502

(1) For the twelve months ended December 31, 2019, operating and administrative expenses include $120 million related to the Protective Life transaction. Refer to the "Segmented Operating Results – United States" section of this document for additional details.

Other benefits and expenses for the fourth quarter of 2019 of $2,259 million increased by $18 million compared to the fourth quarter of 2018, primarily due to restructuring expenses in the U.S. segment.

For the twelve months ended December 31, 2019, other benefits and expenses increased by $225 million to $8,727 million compared to the same period last year, primarily due to higher operating and administrative expenses, driven by a net charge on the sale, via indemnity reinsurance, of a U.S. business and higher financing charges. In the second quarter of 2018, financing charges were reduced by a gain of $65 million pre-tax ($51 million post-tax) recognized on the termination of an interest rate hedge as part of a debt refinancing transaction.

Other benefits and expenses for the fourth quarter of 2019 increased by $180 million compared to the previous quarter, primarily due to an increase in restructuring expenses discussed for the in-quarter results and higher commissions driven by higher sales in the U.S. segment.

Income Taxes

The Company's effective income tax rate is generally lower than the statutory income tax rate of 27% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

In the fourth quarter of 2019, the Company had an effective income tax rate of 22%, up from 6% in the fourth quarter of 2018. During the fourth quarter of 2019, management determined that a $199 million revaluation of a deferred income tax asset pertaining to one of its subsidiaries was appropriate due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses generated in the earliest loss years. Also, in the fourth quarter of 2019, the Company resolved an outstanding issue with a foreign tax authority. The net impact of these items was an increase in the effective tax rate for the fourth quarter of 2019 by 15 points. Excluding the impact of these two items, the effective income tax rate for the fourth quarter of 2019 was 7%, comparable to the prior year.

The Company had an effective income tax rate of 13% for the twelve months ended December 31, 2019 compared to 11% for the same period last year. Excluding the impact of the revaluation of a deferred tax asset and the tax issue resolution discussed for the in-quarter results, the Company's effective tax rate was 10% for the twelve months ended December 31, 2019, comparable to the same period last year.

In the fourth quarter of 2019, the Company had an effective income tax rate of 22%, up from 6% in the third quarter of 2019. Excluding the impact of the revaluation of a deferred tax asset and the tax issue resolution discussed for the in-quarter results, the Company's effective income tax rate for the fourth quarter of 2019 was 7%, comparable to the third quarter of 2019.

Effective January 1, 2019, the Company applied International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments* (IFRIC 23). Refer to the "Accounting Policies – International Financial Reporting Standards" section for further details.

Refer to note 27 in the Company's December 31, 2019 consolidated financial statements for further details.

Consolidated Financial Position

Assets

Assets under administration

	December 31, 2019			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 81,179	$ 32,768	$ 54,840	$ 168,787
Goodwill and intangible assets	5,560	1,990	2,834	10,384
Other assets	3,953	19,421	17,600	40,974
Investments on account of segregated fund policyholders	85,612	31,433	113,977	231,022
Total assets	176,304	85,612	189,251	451,167
Proprietary mutual funds and institutional net assets [1]	6,986	257,301	56,261	320,548
Total assets under management [1]	183,290	342,913	245,512	771,715
Other assets under administration [1]	17,118	792,110	48,738	857,966
Total assets under administration [1]	$ 200,408	$ 1,135,023	$ 294,250	$ 1,629,681

	December 31, 2018			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 75,647	$ 47,500	$ 54,334	$ 177,481
Assets held for sale	–	–	897	897
Goodwill and intangible assets	5,516	2,130	2,878	10,524
Other assets	3,110	4,495	18,336	25,941
Investments on account of segregated fund policyholders	76,633	31,816	101,078	209,527
Investments on account of segregated fund policyholders held for sale	–	–	3,319	3,319
Total assets	160,906	85,941	180,842	427,689
Proprietary mutual funds and institutional net assets [1]	6,214	235,075	40,375	281,664
Total assets under management [1]	167,120	321,016	221,217	709,353
Other assets under administration [1]	13,615	630,881	45,024	689,520
Total assets under administration [1]	$ 180,735	$ 951,897	$ 266,241	$ 1,398,873

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Total assets under administration at December 31, 2019 increased by $230.8 billion to $1.6 trillion compared to December 31, 2018, primarily due to the impact of market movement and new business growth, partially offset by the impact of currency movement. As a result of the indemnity reinsurance agreement with Protective Life, effective June 1, 2019, the U.S. segment's invested assets decreased, as $15.5 billion of invested assets were transferred to Protective Life, offset by $1.0 billion of cash received, while other assets increased as a result of the recognition of $15.2 billion of reinsurance assets. The increase of $161.2 billion in the U.S. segment's other assets under administration includes the impact of large plan sales in the first quarter of 2019. The increase of $3.5 billion in the Canada segment's other assets under administration includes the acquisition of Guggenheim Real Estate LLC during the first quarter of 2019.

Assets held for sale of $0.9 billion and investments on account of segregated fund policyholders held for sale of $3.3 billion at December 31, 2018 relate to the sale of a heritage block of policies to Scottish Friendly, which was completed in the fourth quarter of 2019. Refer to note 4 of the Company's December 31, 2019 consolidated financial statements for further information on assets classified as held for sale.

Invested Assets

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. Within the framework of the Company's policies, the Company implements strategies and reviews and adjusts them on an ongoing basis considering liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Invested asset distribution

	December 31, 2019				
	Canada	United States	Europe	Total	
Bonds					
Government & related	$ 22,237	$ 3,698	$ 21,214	$ 47,149	28%
Corporate & other	27,797	17,808	22,274	67,879	40
Sub-total bonds	50,034	21,506	43,488	115,028	68
Mortgages	14,810	3,996	5,462	24,268	14
Stocks	9,675	301	399	10,375	6
Investment properties	3,130	6	2,751	5,887	4
Sub-total portfolio investments	77,649	25,809	52,100	155,558	92
Cash and cash equivalents	558	1,445	2,625	4,628	3
Loans to policyholders	2,972	5,514	115	8,601	5
Total invested assets	$ 81,179	$ 32,768	$ 54,840	$ 168,787	100%

	December 31, 2018				
	Canada	United States	Europe	Total	
Bonds					
Government & related	$ 21,091	$ 5,291	$ 22,405	$ 48,787	28%
Corporate & other	26,174	28,266	21,635	76,075	43
Sub-total bonds	47,265	33,557	44,040	124,862	71
Mortgages	14,039	6,440	4,535	25,014	14
Stocks	8,724	187	379	9,290	5
Investment properties	2,330	7	2,881	5,218	3
Sub-total portfolio investments	72,358	40,191	51,835	164,384	93
Cash and cash equivalents	455	1,330	2,383	4,168	2
Loans to policyholders	2,834	5,979	116	8,929	5
Total invested assets	$ 75,647	$ 47,500	$ 54,334	$ 177,481	100%

At December 31, 2019, total invested assets were $168.8 billion, a decrease of $8.7 billion from December 31, 2018. The decrease in invested assets was primarily related to $15.5 billion of invested assets transferred, offset by $1.0 billion of cash received, to support the indemnity reinsurance agreement with Protective Life. The decrease was partially offset by the impact of market movement. The distribution of assets has not changed significantly and remains heavily weighted to bonds and mortgages.

Bond portfolio – It is the Company's policy to acquire primarily investment grade bonds subject to prudent and well-defined investment policies. Modest investments in below investment grade rated securities may occur while not changing the overall discipline and conservative approach to the investment strategy. The total bond portfolio, including short-term investments, was $115.0 billion or 68% of invested assets at December 31, 2019 compared to $124.9 billion or 71% at December 31, 2018. The decrease in the bond portfolio was primarily related to $13.6 billion of assets transferred to support the indemnity reinsurance agreement with Protective Life. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 80% rated A or higher.

Bond portfolio quality

	December 31, 2019		December 31, 2018	
AAA	$ 22,083	19%	$ 23,558	19%
AA	33,272	29	33,793	27
A	37,233	32	41,008	33
BBB	21,922	19	25,553	20
BB or lower	518	1	950	1
Total	$ 115,028	100%	$ 124,862	100%

At December 31, 2019, non-investment grade bonds were $0.5 billion or 0.5% of the bond portfolio compared to $1.0 billion or 0.8% of the bond portfolio at December 31, 2018. The decrease in non-investment grade bonds was primarily due to upgrades to investment grade and disposals in the year.

Mortgage portfolio – It is the Company's practice to acquire high quality commercial mortgages meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk-rating system, which it uses in its underwriting and credit monitoring processes for commercial loans. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region, including specific diversification requirements for non-insured mortgages. Equity release mortgages are originated in the Europe segment following well-defined lending criteria and held in both the Canada and Europe segments. Equity release mortgages are loans provided to seniors who want to continue living in their homes while accessing some of the underlying equity value in their homes. Loans are typically repaid when the borrower dies or moves into long-term care.

Mortgage portfolio

	December 31, 2019				December 31, 2018	
Mortgage loans by type	Insured	Non-insured	Total		Total	
Single family residential	$ 572	$ 1,497	$ 2,069	9%	$ 2,104	8%
Multi-family residential	3,569	3,435	7,004	29	7,617	31
Equity release	–	1,314	1,314	5	813	3
Commercial	267	13,614	13,881	57	14,480	58
Total	$ 4,408	$ 19,860	$ 24,268	100%	$ 25,014	100%

The total mortgage portfolio was $24.3 billion or 14% of invested assets at December 31, 2019, compared to $25.0 billion or 14% of invested assets at December 31, 2018. The decrease in the mortgage portfolio was primarily related to $1.8 billion of commercial mortgage assets transferred to support the indemnity reinsurance agreement with Protective Life. Total insured loans were $4.4 billion or 18% of the mortgage portfolio. The equity release mortgages had a weighted average loan-to-value of 26% (23% at December 31, 2018).

Commercial mortgages

	December 31, 2019				December 31, 2018			
	Canada	U.S.	Europe	Total	Canada	U.S.	Europe	Total
Retail & shopping centres	$ 3,668	$ 480	$ 1,245	$ 5,393	$ 3,616	$ 656	$ 1,341	$ 5,613
Office buildings	2,011	656	1,273	3,940	1,795	1,043	614	3,452
Industrial	1,816	787	779	3,382	1,418	1,859	800	4,077
Other	376	275	515	1,166	394	448	496	1,338
Total	$ 7,871	$ 2,198	$ 3,812	$ 13,881	$ 7,223	$ 4,006	$ 3,251	$ 14,480

Single family residential mortgages

	December 31, 2019		December 31, 2018	
Region				
Ontario	$ 1,073	52%	$ 1,055	51%
Quebec	432	21	445	21
Alberta	118	6	126	6
Newfoundland	98	5	108	5
British Columbia	94	4	112	5
Saskatchewan	90	4	90	4
Nova Scotia	58	3	62	3
New Brunswick	53	3	54	3
Manitoba	48	2	47	2
Other	5	–	5	–
Total	$ 2,069	100%	$ 2,104	100%

During the twelve months ended December 31, 2019, single family mortgage originations, including renewals, were $482 million, of which 28% were insured ($577 million and 25% at December 31, 2018). Insured mortgages include mortgages where insurance is provided by a third party and protects the Company in the event that the borrower is unable to fulfill their mortgage obligations. Loans that are insured are subject to the requirements of the mortgage default insurance provider. For new originations of non-insured residential mortgages, the Company's investment policies limit the amortization period to a maximum of 25 years and the loan-to-value to a maximum of 80% of the purchase price or current appraised value of the property. The weighted average remaining amortization period for the single family residential mortgage portfolio was 21 years as at December 31, 2019 (21 years at December 31, 2018).

Equity portfolio – The total equity portfolio was $16.3 billion or 10% of invested assets at December 31, 2019 compared to $14.5 billion or 8% of invested assets at December 31, 2018. The equity portfolio consists of publicly traded stocks, privately held stocks and investment properties. The increase in publicly traded stocks of $0.9 billion was primarily due to an increase in Canadian equity markets and the increase in privately held stocks of $0.2 billion was primarily due to acquisitions in the Canada segment. The increase in investment properties of $0.7 billion was mainly the result of purchases in the Canada segment.

Equity portfolio

	December 31, 2019		December 31, 2018	
Equity portfolio by type				
Publicly traded stocks	$ 9,766	60%	$ 8,873	61%
Privately held stocks	609	4	417	3
Sub-total	10,375	64	9,290	64
Investment properties	5,887	36	5,218	36
Total	$ 16,262	100%	$ 14,508	100%

Investment properties

	December 31, 2019				December 31, 2018			
	Canada	U.S.	Europe	Total	Canada	U.S.	Europe	Total
Office buildings	$ 1,523	$ –	$ 664	$ 2,187	$ 1,015	$ –	$ 673	$ 1,688
Industrial	519	–	773	1,292	363	–	783	1,146
Retail	215	–	945	1,160	210	–	1,045	1,255
Other	873	6	369	1,248	742	7	380	1,129
Total	$ 3,130	$ 6	$ 2,751	$ 5,887	$ 2,330	$ 7	$ 2,881	$ 5,218

Impaired investments – Impaired investments include bonds in default, mortgages in default or in the process of foreclosure, investment properties acquired by foreclosure and other assets where management no longer has reasonable assurance that all contractual cash flows will be received.

Impaired investments

	December 31, 2019				December 31, 2018			
	Gross amount	Impairment recovery	Impairment provision	Carrying amount	Gross amount	Impairment recovery	Impairment provision	Carrying amount
Fair value through profit or loss	$ 19	$ 2	$ –	$ 21	$ 164	$ 15	$ (1)	$ 178
Available-for-sale	16	–	–	16	31	1	(2)	30
Loans and receivables	80	–	(51)	29	48	–	(20)	28
Total	$ 115	$ 2	$ (51)	$ 66	$ 243	$ 16	$ (23)	$ 236

The gross amount of impaired investments totalled $115 million or 0.1% of invested assets at December 31, 2019 compared to $243 million or 0.1% at December 31, 2018, a net decrease of $128 million. The decrease in impaired investments was primarily due to ratings upgrades and dispositions, partially offset by mortgage loans impaired in 2019 as a result of a U.K. retail tenant entering a prepackaged administration, which was followed by a Company Voluntary Arrangement (CVA).

The impairment recovery at December 31, 2019 was $2 million, which reflects the improvement in market values of certain investments from the date at which they became impaired. The impairment provision at December 31, 2019 was $51 million compared to $23 million at December 31, 2018. The increase was primarily due to mortgage provisions related to the U.K. mortgages impaired in 2019. While the fair values have improved on certain impaired assets, these assets remain impaired based on other impairment factors as described in the "Summary of Critical Accounting Estimates" section of this document and in note 2 of the Company's December 31, 2019 annual consolidated financial statements.

Provision for future credit losses

As a component of insurance contract liabilities, the total actuarial provision for future credit losses is determined consistent with the Canadian Institute of Actuaries' Standards of Practice and includes provisions for adverse deviation.

At December 31, 2019, the total actuarial provision for future credit losses in insurance contract liabilities was $2,575 million compared to $2,595 million at December 31, 2018, a decrease of $20 million. The decrease was primarily due to the sale, via indemnity reinsurance, of substantially all of GWL&A's individual life insurance and annuity business in its U.S. segment, basis changes and the impact of impairments on U.K. mortgage loans, partially offset by normal business activity.

The aggregate of impairment provisions of $51 million ($23 million at December 31, 2018) and actuarial provisions for future credit losses in insurance contract liabilities of $2,575 million ($2,595 million at December 31, 2018) represents 1.8% of bond and mortgage assets, including funds held by ceding insurers, at December 31, 2019 (1.7% at December 31, 2018).

United Kingdom Property Related Exposures

Holdings of United Kingdom Mortgages and Investment Properties

	December 31, 2019							December 31, 2018
	Multi-family residential	Retail & shopping centres	Office buildings	Industrial	Equity release	Other	Total	Total
Mortgages	$ 677	$ 1,563	$ 1,264	$ 870	$ 1,314	$ 535	$ 6,223	$ 4,925
Investment properties	–	928	664	773	–	361	2,726	2,850
Total	**$ 677**	**$ 2,491**	**$ 1,928**	**$ 1,643**	**$ 1,314**	**$ 896**	**$ 8,949**	$ 7,775

At December 31, 2019, the Company's holdings of property related investments in the U.K. were $8.9 billion, or 5.3% of invested assets compared to $7.8 billion at December 31, 2018. The increase from December 31, 2018 was primarily due to originations of commercial and equity release mortgages. Holdings in Central London were $2.8 billion or 1.7% of invested assets compared to $2.3 billion or 1.3% at December 31, 2018, while holdings in other regions of the U.K. were $6.1 billion or 3.6% of invested assets compared to $5.5 billion or 3.1% at December 31, 2018. These holdings were well diversified across property type – Retail (28%), Industrial/Other (28%), Office (21%), Equity release (15%) and Multi-family (8%). Of the Retail sector holdings, 49% relate to warehouse/distribution and other retail, 29% relate to shopping centres and department stores and 22% relate to grocery retail sub-categories. The weighted average loan-to-value ratio of the mortgages was 51% (51% at December 31, 2018) and the weighted average debt-service coverage ratio was 2.7 at December 31, 2019 (2.5 at December 31, 2018). At December 31, 2019, the weighted average mortgage and property lease term exceeded 11 years (11 years at December 31, 2018).

In the second quarter of 2019, a number of the Company's U.K. mortgage loans and investment properties were impacted as certain U.K. retailers occupying the properties continued to experience financial difficulties. For these mortgage loans and investment properties, a decline in the expected cash flows from the properties resulted in an increase in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $68 million and was primarily related to a U.K. retail tenant that entered a prepackaged administration, which was followed by a CVA during the second quarter of 2019.

Derivative Financial Instruments

There were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments in 2019. The Company's derivative transactions are generally governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements, which provide for legally enforceable set-off and close-out netting of exposure to specific counterparties in the event of an early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from a counterparty against payables to the same counterparty, in the same legal entity, arising out of all included transactions. The Company's ISDA Master Agreements may include Credit Support Annex provisions, which require both the pledging and accepting of collateral in connection with its derivative transactions.

At December 31, 2019, total financial collateral, including initial margin and overcollateralization, received on derivative assets was $156 million ($113 million at December 31, 2018) and pledged on derivative liabilities was $634 million ($691 million at December 31, 2018). Collateral received on derivative assets increased and collateral pledged on derivative liabilities decreased in 2019, primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

During the twelve month period ended December 31, 2019, the outstanding notional amount of derivative contracts increased by $2.0 billion to $21.6 billion, primarily due to an increase in forward settling mortgage backed security transactions ("to-be-announced-securities") and regular hedging activities.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, increased to $451 million at December 31, 2019 from $417 million at December 31, 2018. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

Goodwill and Intangible Assets

Goodwill and intangible assets

	December 31	
	2019	2018
Goodwill	**$ 6,505**	$ 6,548
Indefinite life intangible assets	**2,704**	2,784
Finite life intangible assets	**1,175**	1,192
Total	**$10,384**	$ 10,524

The Company's goodwill and intangible assets relate primarily to its acquisitions of London Life, Canada Life, Putnam and Irish Life. Goodwill and intangible assets of $10.4 billion at December 31, 2019 decreased by $140 million compared to December 31, 2018. Goodwill decreased by $43 million and indefinite life intangible assets decreased by $80 million primarily due to impairments and the impact of currency movement. During the second quarter of 2019, goodwill of $19 million was impaired as a result of the sale, via indemnity reinsurance, of the individual life insurance and annuity business to Protective Life. Finite life intangible assets decreased by $17 million primarily due to the impact of currency movement.

IFRS principles require the Company to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an impairment test on goodwill and indefinite life intangible assets at least annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. Finite life intangible assets are reviewed annually to determine if there are indications of impairment and assess whether the amortization periods and methods are appropriate. In the fourth quarter of 2019, the Company conducted its annual impairment testing of goodwill

and intangible assets based on September 30, 2019 asset balances. It was determined that the recoverable amounts of cash generating unit groupings were in excess of their carrying values and there was no evidence of impairment. Recoverable amount is based on fair value less cost of disposal.

Refer to note 11 in the Company's December 31, 2019 consolidated financial statements for further details of the Company's goodwill and intangible assets. Also, refer to the "Summary of Critical Accounting Estimates" section of this document for details on impairment testing of these assets.

Other General Fund Assets

Other general fund assets

	December 31	
	2019	2018
Reinsurance assets	**$ 20,707**	$ 6,126
Funds held by ceding insurers	**8,714**	9,251
Premiums in course of collection, accounts and interest receivable	**5,881**	5,202
Other assets	**3,110**	2,567
Owner occupied properties	**727**	731
Deferred tax assets	**693**	981
Fixed assets	**455**	448
Derivative financial instruments	**451**	417
Current income taxes	**236**	218
Total	**$ 40,974**	$ 25,941

Total other general fund assets at December 31, 2019 were $41.0 billion, an increase of $15.0 billion from December 31, 2018. The increase was primarily due to an increase of $14.6 billion in reinsurance assets, primarily due to $15.2 billion of reinsurance assets received as a result of the sale, via indemnity reinsurance, to Protective Life and an increase of $0.7 billion in premiums in course of collection, accounts and interest receivable. The increase was partially offset by a decrease of $0.5 billion in funds held by ceding insurers and a decrease of $0.3 billion in deferred tax assets mainly due to the revaluation of a deferred tax asset in the U.S. segment.

Other assets comprise several items including prepaid expenses and accounts receivable. Refer to note 13 in the Company's December 31, 2019 consolidated financial statements for a breakdown of other assets.

Investments on Account of Segregated Fund Policyholders

Segregated funds

	December 31	
	2019	2018
Stock and units in unit trusts	**$104,330**	$ 89,853
Mutual funds	**55,779**	50,956
Bonds	**44,973**	42,142
Investment properties	**12,986**	12,319
Cash and other	**9,137**	10,647
Mortgage loans	**2,670**	2,746
Sub-total	**$229,875**	$208,663
Non-controlling mutual funds interest	**1,147**	864
Total	**$231,022**	$209,527

Investments on account of segregated fund policyholders, which are measured at fair value, increased by $21.5 billion to $231.0 billion at December 31, 2019 compared to December 31, 2018. The increase was primarily due to the combined impact of market value gains and investment income of $27.3 billion, partially offset by the impact of currency movement of $6.5 billion.

Proprietary Mutual Funds

Proprietary mutual funds and institutional assets[1]

	December 31	
	2019	2018
Mutual funds [1]		
Blend equity	**$ 23,945**	$ 23,489
Growth equity	**19,405**	15,642
Equity value	**24,732**	22,003
Fixed-income	**53,613**	46,227
Money market	**187**	185
Empower Funds [2]	**22,362**	18,463
Sub-total	**$144,244**	$126,009
Institutional assets [1]		
Equity	**$108,229**	$ 94,494
Fixed-income	**59,112**	52,586
Other	**8,963**	8,575
Sub-total	**$176,304**	$155,655
Total proprietary mutual funds and institutional assets [1]	**$320,548**	$281,664

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) At December 31, 2019, Empower funds exclude $17.9 billion of Putnam managed funds ($14.4 billion at December 31, 2018), which are included in the categories above.

At December 31, 2019, total proprietary mutual funds and institutional assets include $257.3 billion at Putnam and GWL&A, $50.5 billion at Irish Life and $6.8 billion at Quadrus Investment Services Ltd (Quadrus). Proprietary mutual funds and institutional assets under management increased by $38.9 billion, primarily due to the impact of market movement and the impact of currency movement.

Liabilities

Total liabilities

	December 31	
	2019	2018
Insurance and investment contract liabilities	**$176,177**	$168,431
Liabilities held for sale	**–**	897
Other general fund liabilities	**18,425**	18,117
Investment and insurance contracts on account of segregated fund policyholders	**231,022**	209,527
Investment and insurance contracts on account of segregated fund policyholders held for sale	**–**	3,319
Total	**$425,624**	$400,291

Total liabilities increased by $25.3 billion to $425.6 billion at December 31, 2019 from December 31, 2018.

Insurance and investment contract liabilities increased by $7.7 billion, primarily due to fair value adjustments and the impact of new business, partially offset by the weakening of the euro, British pound, and U.S. dollar against the Canadian dollar. Investment and insurance contracts on account of segregated fund policyholders increased by $21.5 billion, primarily due to the combined impact of market value gains and investment income of $27.3 billion, partially offset by the impact of currency movement of $6.5 billion.

Liabilities held for sale of $0.9 billion and investment and insurance contracts on account of segregated fund policyholders held for sale of $3.3 billion at December 31, 2018 relate to the sale of a heritage block of policies to Scottish Friendly, which was completed in the fourth quarter of 2019. Refer to note 4 of the Company's December 31, 2019 consolidated financial statements for further information on assets classified as held for sale.

Insurance and investment contract liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in-force. Insurance and investment contract liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. Also, refer to the "Summary of Critical Accounting Estimates" section of this document for further details.

Assets supporting insurance and investment contract liabilities

	Participating Account	Non-Participating			Total
		Canada	United States	Europe	
December 31, 2019					
Bonds	**$ 25,328**	**$ 20,270**	**$ 14,311**	**$ 35,546**	**$ 95,455**
Mortgage loans	**10,301**	**4,111**	**2,678**	**5,442**	**22,532**
Stocks	**6,205**	**2,237**	**–**	**299**	**8,741**
Investment properties	**2,484**	**407**	**–**	**2,672**	**5,563**
Other assets [1]	**10,301**	**5,643**	**15,371**	**12,571**	**43,886**
Total assets	**$ 54,619**	**$ 32,668**	**$ 32,360**	**$ 56,530**	**$ 176,177**
Total insurance and investment contract liabilities	**$ 54,619**	**$ 32,668**	**$ 32,360**	**$ 56,530**	**$ 176,177**
December 31, 2018					
Bonds	$ 23,892	$ 19,204	$ 25,324	$ 35,174	$ 103,594
Mortgage loans	9,918	3,845	4,993	4,511	23,267
Stocks	5,465	1,916	–	191	7,572
Investment properties	1,926	196	–	2,795	4,917
Other assets [1]	9,726	5,013	725	13,617	29,081
Total assets	$ 50,927	$ 30,174	$ 31,042	$ 56,288	$ 168,431
Total insurance and investment contract liabilities	$ 50,927	$ 30,174	$ 31,042	$ 56,288	$ 168,431

(1) Other assets include reinsurance assets, premiums in the course of collection, interest due and accrued, other investment receivables, deferred acquisition costs, accounts receivable, current income taxes and prepaid expenses. Reinsurance assets include assets recognized as a result of the indemnity reinsurance agreement with Protective Life.

Asset and liability cash flows are matched within established limits to minimize the financial effects of a shift in interest rates and mitigate the changes in the Company's financial position due to interest rate volatility.

Other General Fund Liabilities

Other general fund liabilities

	December 31	
	2019	2018
Debentures and other debt instruments	**$ 5,993**	$ 6,459
Other liabilities	**4,689**	3,855
Accounts payable	**3,352**	3,262
Derivative financial instruments	**1,381**	1,562
Funds held under reinsurance contracts	**1,433**	1,367
Deferred tax liabilities	**1,116**	1,210
Current income taxes	**461**	402
Total	**$18,425**	$ 18,117

Total other general fund liabilities at December 31, 2019 were $18.4 billion, an increase of $0.3 billion from December 31, 2018, primarily due to an increase of $0.8 billion in other liabilities related to the recognition of $0.5 billion of lease liabilities related to the adoption of IFRS 16, *Leases*, effective January 1, 2019. The increase was partially offset by a decrease in debentures and other debt instruments driven by net redemptions and the impact of currency movement.

Other liabilities of $4.7 billion include pension and other post-employment benefits, lease liabilities, deferred income reserve, bank overdraft and other liability balances. Refer to note 18 in the Company's December 31, 2019 consolidated financial statements for a breakdown of the other liabilities balance and note 16 in the Company's December 31, 2019 consolidated financial statements for details of the debentures and other debt instruments.

Segregated Fund and Variable Annuity Guarantees

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds.

The Company utilizes internal reinsurance treaties to aggregate the business as a risk-mitigating tool. Aggregation enables the Company to benefit from diversification of segregated fund risks within one legal entity, a more efficient and cost effective hedging process, and better management of the liquidity risk associated with hedging. It also results in the Company holding lower required capital and insurance contract liabilities, as aggregation of different risk profiles allows the Company to reflect offsets at a consolidated level.

In Canada, the Company offers individual segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits (GMAB). In 2009, Great-West Life, London Life and Canada Life launched individual segregated fund products, which offer three levels of death and maturity guarantees, guarantee reset riders and lifetime guaranteed minimum withdrawal benefits (GMWB). Effective January 1, 2020, following the amalgamation of Great-West Life, London Life and Canada Life, the products are offered under the Canada Life brand.

For a certain generation of products, the guarantees in connection with the Canadian individual segregated fund businesses of Great-West Life, London Life and Canada Life have been reinsured to London Reinsurance Group Inc. (LRG), a subsidiary of London Life. This does not include the guarantees on newer Canadian products, which have been reinsured to London Life. In addition to the guarantees reinsured from Great-West Life, London Life and Canada Life, LRG also has a closed portfolio of, GMAB and guaranteed minimum income benefits (GMIB) that it has reinsured from other U.S. and Canadian life insurance and reinsurance companies.

In Europe, the Company offers UWP products through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products but include pooling of policyholders' funds and minimum credited interest rates. The Company also offers a GMWB product in Germany through Canada Life.

In the U.S., the Company offers group variable annuities with GMDB and GMWB through GWL&A. For the standalone GMDB business, most are a return of premium on death with the guarantee expiring at age 70.

The GMWB products offered by the Company in Canada, the U.S. and Germany, and previously offered in Ireland, provide the policyholder with a guaranteed minimum level of annual income for life. The minimum level of income may increase depending upon the level of growth in the market value of the policyholder's funds. Where the market value of the policyholder's funds is ultimately insufficient to meet the level of guarantee purchased by the policyholder, the Company is obligated to make up the shortfall.

These products involve cash flows of which the magnitude and timing are uncertain and are dependent on the level of equity and fixed-income market returns, interest rates, currency markets, market volatility, policyholder behaviour and policyholder longevity.

The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products. The program methodology quantifies both the embedded option value and its sensitivity to movements in equity markets, currency markets and interest rates. Equity derivative instruments, currency derivative instruments and interest rate derivative instruments are used to mitigate changes in the embedded option value attributable to movements in equity markets, currency markets and interest rates respectively. The hedging program, by its nature, requires continuous monitoring and rebalancing to avoid over or under hedged positions. Periods of heightened market volatility will increase the frequency of hedge rebalancing.

By their nature, certain risks associated with the GMWB product either cannot be hedged or cannot be hedged on a cost effective basis. These risks include policyholder behaviour, policyholder longevity and basis risk and market volatility. Consequently, the hedging program will not mitigate all risks to the Company associated with the GMWB products and may expose the Company to additional risks including the operational risk associated with the reliance upon sophisticated models, and counterparty credit risk associated with the use of derivative instruments.

Other risk management processes are in place aimed at appropriately limiting the Company's exposure to the risks it is not hedging or are otherwise inherent in its GMWB hedging program. In particular, the GMWB product has been designed with specific regard to limiting policyholder anti-selection, and the array of investment funds available to policyholders has been determined with a view to minimizing underlying basis risk.

Certain GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2019, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $3,332 million ($4,169 million at December 31, 2018). The decrease was primarily due to U.S. business related to individual GMWB transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019.

Segregated fund and variable annuity guarantee exposure

		December 31, 2019 Investment deficiency by benefit type			
	Market Value	Income	Maturity	Death	Total [1]
Canada	$ 32,489	$ –	$ 13	$ 35	$ 35
United States	10,395	3	–	5	8
Europe					
Insurance & Annuities	10,045	3	–	657	657
Reinsurance [2]	877	285	–	–	285
Total Europe	10,922	288	–	657	942
Total	**$ 53,806**	**$ 291**	**$ 13**	**$ 697**	**$ 985**

(1) A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on December 31, 2019.

(2) Reinsurance exposure is to markets in Canada and the U.S.

The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity or death) assuming it occurred on December 31, 2019 and does not include the impact of the Company's hedging program for GMWB products. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees were $6 million in-quarter ($2 million for the fourth quarter of 2018) and $21 million year-to-date ($14 million year-to-date for 2018), with the majority arising in the Reinsurance business unit in the Europe segment.

Lifeco Capital Structure

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments considering both the short and long-term capital needs of the Company.

Debentures and Other Debt Instruments

At December 31, 2019, debentures and other debt instruments decreased by $466 million to $5,993 million compared to December 31, 2018, primarily due to debt redemptions as well as the impact of currency movement.

On December 10, 2019, GWL&A redeemed all $232 million (US$175 million) aggregate principal amount 6.625% deferrable debentures due November 15, 2034 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest up to but excluding the redemption date. A portion of the $1.0 billion cash received from the indemnity reinsurance agreement with Protective Life was used for the redemption.

Refer to note 16 in the Company's December 31, 2019 consolidated financial statements for further details of the Company's debentures and other debt instruments.

Capital Trust Securities

At December 31, 2019, the Company had $150 million principal outstanding of Canada Life Capital Trust Securities – Series B (CLiCS – Series B). Included in the Company's invested assets at December 31, 2019 were CLiCS – Series B with a fair value of $53 million and principal value of $37 million (fair value of $51 million at December 31, 2018).

Each holder of the CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of $37.645 per CLiCS – Series B, representing an annual yield of 7.529% payable out of Canada Life Capital Trust's (CLCT) distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time and the CLiCS – Series B are callable at par on June 30, 2032.

Equity

Share capital outstanding at December 31, 2019 was $8,347 million, which comprises $5,633 million of common shares, $2,464 million of fixed rate First Preferred Shares, $213 million of 5-year rate reset First Preferred Shares and $37 million of floating rate First Preferred Shares.

Common shares

At December 31, 2019, the Company had 927,281,186 common shares outstanding with a stated value of $5,633 million compared to 987,739,408 common shares with a stated value of $7,283 million at December 31, 2018.

The Company commenced a normal course issuer bid (NCIB) on February 1, 2019 for one year to purchase and cancel up to 20,000,000 of its common shares at market prices in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan and for other capital management purposes. During the twelve months ended December 31, 2019, the Company repurchased and subsequently cancelled 2,000,000 common shares (2018 – 2,127,300) under its NCIB at an average cost per share of $32.91 (2018 – $32.25).

Subsequent to December 31, 2019, in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan and for other capital management purposes, the Company announced a new NCIB commencing January 22, 2020 and terminating January 21, 2021 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices.

On March 4, 2019, the Company announced a substantial issuer bid (the Offer) pursuant to which the Company offered to purchase for cancellation up to $2 billion of its common shares from shareholders for cash. The Offer commenced on March 8, 2019 and expired on April 12, 2019. On April 17, 2019, the Company purchased and subsequently cancelled 59,700,974 common shares under the Offer at a price of $33.50 per share for an aggregate purchase price of $2 billion. The excess paid over the average carrying value under the Offer was $1,628 million and was recognized as a reduction to accumulated surplus. Transaction costs of $3 million were incurred in connection with the Offer and charged to accumulated surplus.

Preferred shares

At December 31, 2019, the Company had 11 series of fixed rate First Preferred Shares, one series of 5-year rate reset First Preferred Shares and one series of floating rate First Preferred Shares outstanding with aggregate stated values of $2,464 million, $213 million and $37 million, respectively.

The terms and conditions of the outstanding First Preferred Shares are set out in the table below:

	Great-West Lifeco Inc.						
	Series F	Series G	Series H	Series I	Series L	Series M	Series N [1]
General Type	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	5-Year Rate Reset
Cumulative/Non-Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Date Issued	Jul 10, 2003	Sep 14, 2004	Aug 12, 2005	Apr 12, 2006	Oct 2, 2009	Mar 4, 2010	Nov 23, 2010
Shares Outstanding	7,740,032	12,000,000	12,000,000	12,000,000	6,800,000	6,000,000	8,524,422
Amount Outstanding (Par)	$193,500,800	$300,000,000	$300,000,000	$300,000,000	$170,000,000	$150,000,000	$213,110,550
Yield	5.90%	5.20%	4.85%	4.50%	5.65%	5.80%	2.176%
Earliest Issuer Redemption Date	Sep 30, 2008	Dec 31, 2009	Sep 30, 2010	Jun 30, 2011	Dec 31, 2014	Mar 31, 2015	Dec 31, 2020

	Great-West Lifeco Inc.					
	Series O [2]	Series P	Series Q	Series R	Series S	Series T
General Type	Floating Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate
Cumulative/Non-Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Date Issued	Dec 31, 2015	Feb 22, 2012	Jul 6, 2012	Oct 11, 2012	May 22, 2014	May 18, 2017
Shares Outstanding	1,475,578	10,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Amount Outstanding (Par)	$36,889,450	$250,000,000	$200,000,000	$200,000,000	$200,000,000	$200,000,000
Yield	Floating	5.40%	5.15%	4.80%	5.25%	5.15%
Earliest Issuer Redemption Date	Dec 31, 2015	March 31, 2017	Sep 30, 2017	Dec 31, 2017	Jun 30, 2019	Jun 30, 2022

(1) The Series N, Non-Cumulative 5-Year Rate Reset First Preferred Shares carry an annual fixed non-cumulative dividend rate of 2.176% up to but excluding December 31, 2020 and are redeemable at the option of the Company on December 31, 2020 and on December 31 every five years thereafter for $25.00 per share plus all declared and unpaid dividends up to but excluding the date of redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series N share conditions, each Series N share is convertible into one Series O share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter.

(2) The Series O, Non-Cumulative Floating Rate First Preferred Shares carry a floating non-cumulative dividend rate equal to the relevant Government of Canada Treasury Bill rate plus 1.30% and are redeemable at the option of the Company for $25.50 per share, unless the shares are redeemed on December 31, 2020 or on December 31 in each fifth year thereafter in which case the redemption price will be $25.00 per share, plus in each case all declared and unpaid dividends up to but excluding the date of redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series O share conditions, each Series O share is convertible into one Series N share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter.

The terms and conditions of the First Preferred Shares do not allow the holder to convert to common shares of the Company or to otherwise cause the Company to redeem the shares. Preferred shares issued by the Company are commonly referred to as perpetual and represent a form of financing that does not have a fixed term.

Non-Controlling Interests

The Company's non-controlling interests include participating account surplus in subsidiaries and non-controlling interests in subsidiaries. Refer to note 19 in the Company's December 31, 2019 consolidated financial statements for further details of the Company's non-controlling interests.

Non-controlling interests

	December 31	
	2019	2018
Participating account surplus in subsidiaries:		
Great-West Life	**$ 595**	$ 608
London Life	**1,866**	1,827
Canada Life	**284**	288
GWL&A	**14**	14
	$ 2,759	$ 2,737
Non-controlling interests in subsidiaries	**$ 107**	$ 138

At December 31, 2019, the carrying value of non-controlling interests decreased by $9 million to $2,866 million compared to December 31, 2018. For the twelve months ended December 31, 2019, net earnings attributable to participating account before policyholder dividends were $1,374 million and policyholder dividends were $1,364 million.

Effective January 1, 2020, following the amalgamation of Great-West Life, London Life and Canada Life, non-controlling interests attributable to participating account surplus previously recorded in the Great-West Life, London Life, and Canada Life will be recorded in the amalgamated company, The Canada Life Assurance Company.

Liquidity and Capital Management and Adequacy

Liquidity

The Company's liquidity requirements are largely self-funded, with short-term obligations being met by internal funds and maintaining levels of liquid investments adequate to meet anticipated liquidity needs. The Company holds cash, cash equivalents and short-term bonds at the Lifeco holding company level and with the Lifeco consolidated subsidiary companies. At December 31, 2019, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of $8.9 billion ($7.8 billion at December 31, 2018) and other liquid assets and marketable securities of $86.6 billion ($93.2 billion at December 31, 2018). Included in the cash, cash equivalents and short-term bonds at December 31, 2019 was $0.7 billion ($1.0 billion at December 31, 2018) at the Lifeco holding company level which includes cash at Great-West Lifeco U.S. LLC, the Company's U.S. holding company. The decrease of $0.3 billion at the Lifeco holding company level was primarily due to the settlement of the substantial issuer bid on April 17, 2019, partially offset by the proceeds of the sale, via indemnity reinsurance, of the U.S. individual life insurance business to Protective Life. In addition, the Company maintains committed lines of credit with Canadian chartered banks for potential unanticipated liquidity needs, if required.

The Company does not have a formal common shareholder dividend policy. Dividends on outstanding common shares of the Company are declared and paid at the sole discretion of the Board of Directors of the Company. The decision to declare a dividend on the common shares of the Company takes into account a variety of factors including the level of earnings, adequacy of capital and availability of cash resources.

As a holding company, the Company's ability to pay dividends and, in part, its ability to deploy capital is dependent upon the Company receiving dividends from its operating subsidiaries. The Company's operating subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company.

Cash Flows

Cash flows

	For the three months ended December 31		For the twelve months ended December 31	
	2019	2018	**2019**	2018
Cash flows relating to the following activities:				
Operations	**$ 1,291**	$ 1,565	**$ 6,110**	$ 6,494
Financing	**(781)**	(260)	**(3,981)**	(1,267)
Investment	**224**	(1,170)	**(1,539)**	(4,776)
	734	135	**590**	451
Effects of changes in exchange rates on cash and cash equivalents	**41**	151	**(130)**	166
Increase (decrease) in cash and cash equivalents in the period	**775**	286	**460**	617
Cash and cash equivalents, beginning of period	**3,853**	3,882	**4,168**	3,551
Cash and cash equivalents, end of period	**$ 4,628**	$ 4,168	**$ 4,628**	$ 4,168

The principal source of funds for the Company on a consolidated basis is cash provided by operating activities, including premium income, net investment income and fee income. These funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Cash flows related to financing activities include the issuance and repayment of capital instruments and associated dividends and interest payments.

In the fourth quarter of 2019, cash and cash equivalents increased by $0.8 billion from September 30, 2019. Cash flows provided by operations during the fourth quarter of 2019 were $1.3 billion, a decrease of $0.3 billion compared to the fourth quarter of 2018. Cash flows used in financing were $0.8 billion, primarily used for the payments of dividends to common and preferred shareholders of $0.4 billion and net debt redemptions of $0.3 billion. For the three months ended December 31, 2019, cash inflows from investment activities related to net disposals of $0.2 billion of investment assets.

For the twelve months ended December 31, 2019, cash and cash equivalents increased by $0.5 billion from December 31, 2018. Cash flows provided by operations were $6.1 billion, a decrease of $0.4 billion compared to the same period in 2018, which included $1.0 billion of cash received during the second quarter of 2019 as a result of the indemnity reinsurance agreement with Protective Life. Cash flows used in financing were $4.0 billion, primarily used for the purchase and cancellation of common shares of $2.0 billion relating to the Company's substantial issuer bid, the payment of dividends to common and preferred shareholders of $1.7 billion and net debt redemptions of $0.3 billion. In the first quarter of 2019, the Company increased the quarterly dividend to common shareholders from $0.389 per common share to $0.413 per common share. For the twelve months ended December 31, 2019, cash flows were used by the Company to acquire an additional $1.5 billion of investment assets.

Commitments/Contractual Obligations

Commitments/contractual obligations

At December 31, 2019	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
1) Debentures and other debt instruments	$ 5,454	$ 500	$ –	$ –	$ 730	$ –	$ 4,224
2) Lease obligations	753	83	78	66	56	53	417
3) Purchase obligations	316	125	57	29	13	8	84
4) Credit-related arrangements							
(a) Contractual commitments	1,042	1,006	19	17	–	–	–
(b) Letters of credit	see note 4(b) below						
5) Pension contributions	280	280	–	–	–	–	–
Total contractual obligations	**$ 7,845**	**$ 1,994**	**$ 154**	**$ 112**	**$ 799**	**$ 61**	**$ 4,725**

1) Refer to note 16 in the Company's December 31, 2019 consolidated financial statements. Excluded from debentures and other debt instruments are unamortized transaction costs.
2) For a further description of the Company's lease obligations, refer to note 18 in the Company's December 31, 2019 consolidated financial statements.
3) Purchase obligations are commitments to acquire goods and services, essentially related to information services.
4) (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.
(b) Letters of credit (LC) are written commitments provided by a bank. The total amount of LC facilities is US$2.3 billion of which US$1.8 billion were issued as of December 31, 2019.
The Reinsurance business unit periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance sheet policy liabilities. The Company may be required to seek collateral alternatives if it is unable to renew existing LCs on maturity. Various Lifeco subsidiaries have provided LCs as follows:
To external parties
Clients residing in the United States are required pursuant to their insurance laws to obtain LCs issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts.
Great-West Life has two LC facilities for US$1,100 million, which can be used by Great-West Life and its subsidiaries. As of December 31, 2019, Great-West Life subsidiaries have issued US$197 million to external parties.
Certain London Reinsurance Group subsidiaries and London Life have provided LCs totaling US$7 million to external parties. Additionally, Great-West Life & Annuity Insurance Company has provided LCs totaling US$9 million to external parties. The LCs are renewable annually for an indefinite period of time.
To internal parties
Great-West Life has three LC facility for US$900 million for use by Great-West Life and its subsidiaries. As of December 31, 2019, US$722 million has been issued to the Company's U.S. Branch.
GWL&A also has a US$70 million LC facility in place. As of December 31, 2019, US$70 million has been issued to Great-West Life & Annuity Insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit.
Canada Life has a £117 million LC issued to Canada Life Limited (CLL) as beneficiary, to allow CLL to receive statutory capital credit in the United Kingdom for a loan made from Canada Life.
In addition, using capacity from the facilities listed above, Great-West Life subsidiaries have issued US$612 million to other subsidiaries and the Company's U.S. Branch.
5) Pension contributions include funding estimates for defined benefit pension plans, defined contribution pension plans and other post-employment plans. These contributions are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond 2020 are excluded due to the significant variability in the assumptions required to project the timing of future contributions.

Capital Management and Adequacy

At the holding company level, the Company monitors the amount of consolidated capital available and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements and strategic plans. The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate. The capitalization decisions of the Company and its operating subsidiaries also give consideration to the impact such actions may have on the opinions expressed by various credit rating agencies that provide financial strength and other ratings to the Company.

The Board of Directors reviews and approves an annual capital plan as well as capital transactions undertaken by management pursuant to the plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy, risk profile and business plans. The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. In addition to undertaking capital transactions, the Company uses and provides traditional and structured reinsurance to support capital and risk management.

In Canada, OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test (LICAT).

The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer is calibrated so that a life insurer can both withstand severe stress events and have assets remaining to allow continued support of its existing business. The total Base Solvency Buffer is the aggregate of all OSFI defined capital requirements multiplied by a fixed scalar of 1.05. The total capital resources include equity items such as common shares, retained earnings and participating policyholders' surplus. There are deductions for goodwill, intangibles and some deferred tax assets. Assets backing certain provisions for adverse deviation within the insurance contract liabilities reported on the financial statements are also included in total capital resources.

OSFI has established a Supervisory Target Total Ratio of 100%, and a Supervisory Minimum Total Ratio of 90%. The internal target range of the LICAT ratio for Lifeco's major Canadian operating subsidiaries is 110% to 120% (on a consolidated basis).

Great-West Life's consolidated LICAT ratio at December 31, 2019 was 135% (140% at December 31, 2018). The LICAT ratio does not take into account any impact from $0.7 billion of liquidity at the Lifeco holding company level at December 31, 2019 ($1.0 billion at December 31, 2018).

During the second quarter, the Company repurchased and subsequently cancelled common shares for aggregate consideration of $2.0 billion. The dividends paid by Great-West Life to Lifeco to support this transaction decreased Great-West Life's consolidated LICAT ratio by approximately 6 points.

During the fourth quarter, the Company entered into a long-term reinsurance agreement to accept longevity risk. The impact of the transaction decreased the LICAT ratio by approximately 3.5 points at Great-West Life.

Effective January 1, 2020, following the amalgamation of Great-West Life, London Life and Canada Life and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., into a single life insurance company, The Canada Life Assurance Company, The Canada Life Assurance Company's consolidated LICAT is equivalent to Great-West Life's consolidated LICAT ratio.

LICAT Ratio

	Dec. 31 2019	Dec. 31 2018
Tier 1 Capital	**$11,952**	$ 12,455
Tier 2 Capital	**3,637**	3,686
Total Available Capital	**15,589**	16,141
Surplus Allowance & Eligible Deposits	**12,625**	10,665
Total Capital Resources	**$28,214**	$ 26,806
Base Solvency Buffer (includes OSFI scalar 1.05)	**$20,911**	$ 19,165
Total Ratio (OSFI Supervisory Target = 100%) [1]	**135%**	140%

(1) Total Ratio (%) = Total Capital Resources / Base Solvency Buffer (after 1.05 scalar)

At December 31, 2019, the Risk-Based Capital (RBC) ratio of GWL&A, Lifeco's regulated U.S. operating company, is estimated to be 627% of the Company Action Level set by the National Association of Insurance Commissioners. GWL&A reports its RBC ratio annually to U.S. Insurance Regulators. The RBC ratio is included for information only and is not intended as a means to rank insurers generally or for any other purposes.

OSFI Regulatory Capital Initiatives

The Company will continue to work with OSFI, the Canadian Institute of Actuaries, and other industry participants, as the LICAT guideline further evolves to allow for any future development including adaptations relating to the IFRS 17 accounting standard and developments relating to Segregated Fund Guarantee Risk requirements.

The International Accounting Standards Board (IASB) has issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts* with a current proposed effective date of January 1, 2022. IFRS 17 includes, among other things, new requirements for the recognition, measurement, presentation and disclosures of insurance contracts the Company issues and reinsurance contracts it holds. The new standard is expected to have a significant impact for insurers related to the timing of earnings recognition and on the presentation and disclosure of results. Adoption of the standard is expected to lead to further review and possible amendments to the OSFI LICAT Guideline. Refer to the "Accounting Policies – International Financial Reporting Standards" section for further details.

Return on Equity

Return on Equity [1]	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018
Canada	**15.0%**	16.3%	19.4%
U.S. Financial Services	**5.1%**	4.5%	12.1%
U.S. Asset Management (Putnam)	**(9.7)%**	(0.7)%	(2.5)%
Europe	**19.1%**	17.4%	15.9%
Total Lifeco Net Earnings Basis	**11.7%**	12.4%	14.0%

Adjusted Return on Equity [1]

	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018
Canada	**15.0%**	16.3%	19.4%
U.S. Financial Services	**12.3%**	11.6%	12.1%
U.S. Asset Management (Putnam)	**1.2%**	(0.7)%	(2.5)%
Europe	**18.9%**	17.4%	16.6%
Total Lifeco Adjusted Net Earnings Basis	**13.8%**	13.4%	14.3%

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

The Company reported ROE of 11.7% at December 31, 2019, compared to 14.0% at December 31, 2018. The Company reported adjusted ROE based on adjusted net earnings of 13.8% at December 31, 2019, compared to 14.3% at December 31, 2018.

Ratings

The Company's financial leverage ratio has been maintained at a level consistent with credit rating agencies' targets for highly rated entities and provides the Company with financial flexibility to invest in organic growth and acquisition strategies. Refer to the "Non-IFRS Financial Measures" section in this MD&A for additional details.

Lifeco maintains ratings from five independent ratings companies. Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. In 2019, the credit ratings for Lifeco and its major operating subsidiaries were unchanged (set out in table below). The Company continued to receive strong ratings relative to its North American peer group resulting from its conservative risk profile, stable net earnings and consistent dividend track record. These ratings are not a recommendation to buy, sell or hold the securities of the Company or its subsidiaries and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating agency.

Lifeco's operating companies are assigned a group rating from each rating agency. This group rating is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and European markets. Each of Lifeco's operating companies benefits from the strong implicit financial support and collective ownership by Lifeco. There were no changes to the Company's group credit ratings in 2019.

Following Lifeco's announcement on January 24, 2019 that its subsidiary, GWL&A, had reached an agreement to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business, Moody's Investors Service (Moody's) placed the Aa3 insurance financial strength (IFS) ratings of GWL&A and its subsidiary, Great-West Life & Annuity Insurance Company of New York, on review for downgrade. Subsequently, on June 4, 2019, Moody's announced it had concluded its review and confirmed the Aa3 IFS ratings of GWL&A and its subsidiary, Great-West Life & Annuity Insurance Company of New York. The A3 issuer rating of GWL&A's U.S. holding company, GWL&A Financial, Inc., and the Baa1(hybrid) senior debt rating of debentures issued by an affiliate, Great-West Life & Annuity Insurance Capital, LP, were also confirmed. The outlook for GWL&A Financial, Inc., and its subsidiaries that were under review, is now stable.

Rating agency	Measurement	Lifeco	Great-West Life	London Life	Canada Life	Irish Life	GWL&A
A.M. Best Company	Financial Strength		A+	A+	A+		A+
DBRS Limited	Issuer Rating	A (high)	AA				
	Financial Strength		AA	AA	AA		NR
	Senior Debt	A (high)					
	Subordinated Debt				AA (low)		
Fitch Ratings	Insurer Financial Strength		AA	AA	AA	AA	AA
	Senior Debt	A					
	Subordinated Debt				A+		
Moody's Investors Service	Insurance Financial Strength		Aa3	Aa3	Aa3		Aa3
Standard & Poor's Ratings Services	Insurer Financial Strength		AA	AA	AA		AA
	Senior Debt	A+					
	Subordinated Debt				AA-		

Effective January 1, 2020, Great-West Life, London Life, Canada Life and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., amalgamated into a single life insurance company, The Canada Life Assurance Company. The ratings of the affected companies were updated to reflect the Company's current corporate structure and are consistent with existing ratings.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco, including the comparative figures, are presented on an IFRS basis after capital allocation. Consolidated operating results for Lifeco comprise the net earnings of Great-West Life and its operating subsidiaries, London Life and Canada Life; GWL&A and Putnam; together with Lifeco's Corporate results.

For reporting purposes, the consolidated operating results are grouped into four reportable segments – Canada, United States, Europe and Lifeco Corporate – reflecting geographic lines as well as the management and corporate structure of the companies.

Effective January 1, 2020, Great-West Life, London Life and Canada Life and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc. amalgamated into a single life insurance company, The Canada Life Assurance Company.

Canada

The Canada segment of Lifeco includes the operating results of the Canadian businesses operated by Great-West Life, London Life and Canada Life, together with an allocation of a portion of Lifeco's Corporate results. There are two primary business units included in this segment. Through the Individual Customer business unit, the Company provides life, disability and critical illness insurance products as well as wealth savings and income products to individual clients. Through the Group Customer business unit, the Company provides life, accidental death and dismemberment, critical illness, health and dental protection, creditor insurance as well as retirement savings and income products and other specialty products to group clients in Canada.

Business Profile

Individual Customer

Individual Customer comprises both insurance and wealth management product lines sold to individual customers.

Individual insurance includes individual life, disability and critical illness insurance products and services. Individual wealth management includes individual wealth savings and income products and services. The Company is a leader in Canada for all insurance and wealth management products and services and utilizes diverse, complementary distribution channels: Freedom 55 Financial™ (Freedom), Wealth and Insurance Solutions Enterprise (WISE), managing general agencies (MGAs) and national accounts, including IG Wealth Management, a member of the Power Financial Corporation group of companies. Through Financial Horizons Group, the Company participates in the MGA channel, distributing products from across the insurance industry.

The individual lines of business accessed the various distribution channels under distinct product brands offered by Great-West Life, London Life, Canada Life and Quadrus. Effective January 1, 2020, following the amalgamation of Great-West Life, London Life and Canada Life, products are offered under the Canada Life and Quadrus brands. By offering this broad suite of products and services through multiple distribution channels, the Company is able to provide advice and product solutions to meet the needs of Canadians at all phases of their lives.

Group Customer

Group Customer includes group life and health benefits, group creditor, and group retirement and investment product lines.

Through its group life and health benefit product lines, the Company offers effective benefit solutions for small, medium and large plan sponsors. The Company offers a wide range of traditional group products and services including life, accidental death and dismemberment, critical illness, disability, health and dental as well as specialty products. In addition, specialty product development has been a focus over the past several years as the Company seeks to provide customized solutions to increasingly unique customer needs. Products to address the needs of mental health in the workplace, high cost medications, optional products purchased by plan members directly and wellness programs are examples of this.

The Company's creditor business, conducted through its Canada Life subsidiary, offers creditor insurance products through large financial institutions and credit card companies. Canada Life is a leader in the creditor insurance business in Canada.

Group retirement and investment product lines include group Registered Retirement Savings Plans (RRSP), Tax-Free Savings Accounts (TFSA), group retirement income products, and institutional investment services. The Company is focused on innovation within its savings and investment product lines and will be focused on launching Registered Education Savings Plans for members in 2020.

Through the Company's extensive network of Group sales offices located across the country, it distributes its products through brokers, consultants and financial security advisors.

Market Overview

Products and Services

Individual Customer

The Company provides an array of individual insurance and individual wealth management products that are distributed through multiple sales channels.

Market Position

- A leader in individual life insurance sales measured by new annualized premium with 21.7% market share [1]
- A significant provider of individual disability and critical illness insurance with 13.5% market share of new sales [1]
- An industry leader with 27.1% market share of individual segregated fund assets [2]

Products and Services

Individual Life Insurance
- Term Life
- Universal Life
- Participating Life

Living Benefits
- Disability
- Critical Illness

Individual Wealth Management
- Savings plans
  - RRSPs
  - Non-registered savings programs
  - TFSAs

  Invested in:
  - Segregated funds
  - Mutual funds
  - Guaranteed investment options
- Retirement Income Plans
  - Segregated funds with GMWB rider
  - Retirement income funds
  - Life income funds
  - Payout annuities
  - Deferred annuities
- Residential mortgages
- Banking products

Distribution [3]

Wealth and Insurance Solutions Enterprise
- 2,147 financial security advisors

Freedom 55 Financial™
- 2,392 financial security advisors

Affiliated Partnerships
- 7,311 independent brokers associated with 32 MGAs
- 1,692 advisors associated with 14 national accounts
- 1,828 IG Wealth Management consultants who actively sell Canada Life products
- 109 direct brokers and producer groups

Financial Horizons Group
- 3,680 independent brokers selling products from across the insurance industry, including Canada Life

Quadrus Investment Services Ltd.
(also included in WISE & Freedom advisor counts):
- 3,514 investment representatives

(1) Nine months ended September 30, 2019

(2) As at November 30, 2019

(3) WISE & Freedom includes all contracted advisors. Affiliated Partnerships and Financial Horizons Group include advisors who placed new business in 2019.

Group Customer

The Company provides an array of life, health and creditor insurance products that are distributed primarily through Group sales offices across the country.

Market Position

- Employee benefits to over 30,000 plan sponsors [1]
- 21% market share for employee benefit plans [1]
- Leading market share for creditor products with coverage provided to over 7.2 million plan members [3]
- 20% market share of group capital accumulation plans [1]
- 20% new sales market share of single premium group annuities [2]

Products and Services

Group Life and Health Benefits
- Life
- Disability
- Critical illness
- Accidental death & dismemberment
- Dental
- Expatriate coverage
- Extended health care

Group Creditor
- Life
- Disability
- Job loss
- Critical illness

Group Retirement & Investment Services
- Group Capital Accumulation Plans including:
  - Defined contribution pension plans
  - Group RRSPs & TFSAs
  - Deferred profit sharing plans
  - Non-registered savings programs

  Invested in:
  - Segregated funds
  - Guaranteed investment options
  - Single company stock
- Retirement Income Plans
  - Payout annuities
  - Deferred annuities
  - Retirement income funds
  - Life income funds
- Investment management services only plans

Invested in:
- Segregated funds
- Guaranteed investment options
- Securities

Specialty Products and Services
- Dialogue™
- Best Doctors™
- Contact
- Individual Health

Distribution

- Group Life and Health and Group Retirement and Investment Services are distributed through brokers, consultants, and financial security advisors. Sales and service support are provided by an integrated team of over 635 employees, located in 28 offices across the country, including 115 account executives [3].
- Group Creditor products and services are distributed primarily though large financial institutions and serviced through a dedicated sales and service organization.

(1) As at December 31, 2018

(2) As at September 30, 2019

(3) As at November 30, 2019

Competitive Conditions

Individual Customer

The individual insurance marketplace is highly competitive. Competition focuses on service, technology, product features, price and financial strength, as indicated by ratings issued by nationally recognized agencies. The Company's broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market.

The individual wealth management marketplace is also very competitive. The Company's main competitors include mutual fund companies, insurance companies, banks and investment advisors as well as other service and professional organizations. New FinTech competitors have entered the marketplace leading to increased competition. Competition focuses on ease of doing business through technology, service, variety of investment options, investment performance, product features, price (fees) and financial strength. Individual wealth management's broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market.

Group Customer

The group life and health benefits market in Canada is highly competitive. There are three large group insurance carriers with significant market positions, a number of smaller companies operating nationally and several regional and niche competitors. The Company has a significant market share of 21%, which is supported by an extensive distribution network who have access to a wide range of products and services. This strong market share position is a distinct advantage for competing successfully in the Canadian group insurance market.

The group capital accumulation plan market is also very competitive. Three major insurance companies hold a significant market share while several smaller insurance companies have an important market presence.

The pension risk transfer business continues to grow in the Canadian marketplace as more companies with defined benefit pension plans (open or closed) look to transfer the investment and longevity risk to insurance companies. Helping the market with the capacity to meet this demand, existing companies have increased their presence in the marketplace, including major independent and bank-owned insurance companies with strong balance sheets and new entrants.

Selected consolidated financial information – Canada

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Premiums and deposits [1]	**$ 7,229**	$ 7,053	$ 6,638	**$ 27,346**	$ 26,298
Sales [1]	**3,609**	3,520	3,447	**13,249**	13,186
Fee and other income	**457**	447	428	**1,766**	1,736
Net earnings – common shareholders	**188**	300	310	**1,051**	1,275
Total assets	**$ 176,304**	$ 174,149	$ 160,906		
Proprietary mutual funds and institutional assets [1]	**6,986**	6,853	6,214		
Total assets under management [1]	**183,290**	181,002	167,120		
Other assets under administration [1]	**17,118**	17,210	13,615		
Total assets under administration [1]	**$ 200,408**	$ 198,212	$ 180,735		

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Individual Customer	**$ 87**	$ 85	$ 171	**$ 431**	$ 685
Group Customer	**114**	206	144	**632**	630
Corporate	**(13)**	9	(5)	**(12)**	(40)
Net earnings – common shareholders	**$ 188**	$ 300	$ 310	**$ 1,051**	$ 1,275

2019 Developments

- On April 3, 2019, the Company announced its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, are moving to one brand in Canada: Canada Life. Following the required approvals, the Company also proceeded with the amalgamation of Great-West Life, London Life and Canada Life, and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., into a single life insurance company, The Canada Life Assurance Company. This amalgamation was effective January 1, 2020 and will create operating efficiencies and simplify the Company's capital structure to allow for more efficient use of capital, although it is not expected to have a material financial impact.
- During the fourth quarter of 2019, as part of the move to the Canada Life brand and amalgamation to one company, new advisor initiatives were announced. The Company launched its new Canada Life segregated funds shelf, bringing together the best funds from its three legacy shelves and removing duplication of mandates creating a simpler and better performing fund shelf for advisors in all channels. Additionally, the Company launched preview illustrations for its new Canada Life participating life insurance product, which were available for sales effective January 2, 2020. This new product is available to advisors in all channels and supported by the amalgamated Canada Life participating account.
- During the year the Company launched other new tools and products to improve customer experience and help them meet their financial and wellness objectives, including:
  - A new goals-based asset management program; Constellation Managed Portfolios, to help individuals manage their individual retirement and savings plans to achieve financial goals.
  - Introduced new term 30 and term to age 65 life insurance products, available through SimpleProtect, the company's digital insurance application.
  - Rolled out "Flexbox"; a product designed to provide insurance and wealth solutions to small businesses with up to 10 plan participants.
  - Enhanced Group life and health customer experience, including:
    - The introduction of the HealthConnected portal, which features engagement elements like wearable device integration, team challenges and wellness strategy games.
    - A new paperless claims experience, which allows members to submit all claim types from their desktop or mobile device.
- During 2019, the Company completed the following acquisitions to help position for growth:
  - On January 31, 2019, Great-West Life Realty Advisors Inc. (GWLRA), a wholly owned subsidiary of the Company, completed its acquisition of Guggenheim Real Estate LLC (GRE), the real estate private equity platform of Guggenheim Investments. The transaction is not expected to have a material impact on the Company's financial results.
  - On August 1, 2019, Financial Horizons Group (FHG), a managing general agency and wholly owned subsidiary of the Company, completed its acquisitions of TORCE Financial Group Inc. and VANCE Financial Group Inc. These acquisitions give FHG a significant presence to serve a diverse customer base in the Toronto and Vancouver markets. These transactions are not expected to have a material impact on the Company's financial results.
- The Company earned an A- ('Leadership') rating on CDP's 2019 Climate Change Questionnaire, a rating which identifies the global leaders in the management of carbon, climate change risks and low carbon opportunities. The Company once again achieved the highest rating among Canadian insurance companies for the fifth consecutive year.

Business Units – Canada

Individual Customer

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Premiums and deposits [1]	**$ 3,110**	$ 2,490	$ 2,862	**$ 10,619**	$ 10,461
Sales [1]	**2,718**	2,020	2,479	**9,318**	9,287
Fee and other income	**258**	252	242	**995**	997
Net earnings	**87**	85	171	**431**	685

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2019 increased by $0.2 billion to $3.1 billion compared to the same quarter last year, primarily due to an increase in segregated fund deposits. The increase in segregated fund deposits was primarily due to an increase in transfers of business from Great-West Life and London Life to Canada Life due to the move to a single brand and the launch of the new Canada Life segregated fund shelf on November 4, 2019.

For the twelve months ended December 31, 2019, premiums and deposits increased by $0.2 billion to $10.6 billion compared to the same period last year, primarily due to an increase in participating life insurance premiums.

Premiums and deposits for the fourth quarter of 2019 increased by $0.6 billion compared to the previous quarter, primarily due to an increase in segregated fund deposits and participating life insurance premiums.

Sales

Sales for the fourth quarter of 2019 increased by $0.2 billion to $2.7 billion compared to the same quarter last year, primarily due to higher segregated fund and third party mutual fund sales.

For the twelve months ended December 31, 2019, sales of $9.3 billion were comparable to the same period last year as higher third party mutual fund sales were mostly offset by a decrease in segregated fund sales.

Sales for the fourth quarter of 2019 increased by $0.7 billion compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

For the individual wealth investment fund business, net cash outflows for the fourth quarter of 2019 were $299 million compared to $216 million for the same quarter last year and $291 million for the previous quarter. Net cash outflows for the twelve months ended December 31, 2019 were $1,386 million compared to $789 million for the same period last year.

Assets under administration – Individual Wealth

	December 31	
	2019	2018
Assets under management [1]		
Risk-based products	**$ 4,920**	$ 5,002
Segregated funds	**32,915**	30,925
Proprietary Mutual Funds	**6,803**	6,037
Total assets under management [1]	**$44,638**	$ 41,964
Other assets under administration [1] [2]	**$ 9,996**	$ 8,397
Total assets under administration – Individual Wealth [1]	**$54,634**	$ 50,361

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Includes third party mutual funds distributed by Quadrus.

Fee and other income

Fee and other income for the fourth quarter of 2019 increased by $16 million to $258 million compared to the same quarter last year, primarily due to higher average assets under management and an increase in other income related to Financial Horizons Group.

For the twelve months ended December 31, 2019, fee and other income of $995 million was comparable to the same period last year.

Fee and other income for the fourth quarter of 2019 increased by $6 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the fourth quarter of 2019 decreased by $84 million to $87 million compared to the same quarter last year. The decrease was primarily due to unfavourable contributions from insurance contract liability basis changes and less favourable impact of new business, partially offset by higher contributions from investment experience. Insurance contract liability basis changes in the fourth quarter of 2019 include the strengthening of actuarial reserves driven by impact of updates to policyholder behaviour assumptions, updates to morbidity assumptions and refinements to certain investment-related assumptions.

For the twelve months ended December 31, 2019, net earnings decreased by $254 million to $431 million compared to the same period last year. The decrease was primarily due to unfavourable contributions from insurance contract liability basis changes, lower net fee income and less favourable policyholder behaviour experience, partially offset by higher contributions from investment experience.

Net earnings for the fourth quarter of 2019 of $87 million were comparable to the previous quarter, primarily due to less favourable impact of new business and unfavourable contributions from investment experience, partially offset by higher contributions from insurance contract liability basis changes.

For the fourth quarter of 2019, the net loss attributable to the participating account was $30 million compared to $19 million for the same quarter last year, primarily due to lower contributions from insurance contract liability basis changes, partially offset by a more favourable impact of new business.

For the twelve months ended December 31, 2019, net earnings attributable to the participating account were $13 million compared to a net loss of $21 million for the same period last year, primarily due to higher contributions from insurance contract liability basis changes.

The net loss attributable to the participating account for the fourth quarter of 2019 was $30 million compared to net earnings of $47 million for the previous quarter, primarily due to lower contributions from insurance contract liability basis changes.

Outlook – Individual Customer

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The Individual Customer business unit delivered solid business results in 2019, notwithstanding actuarial reserve strengthening, while launching the new Canada Life brand and preparing to amalgamate the companies. The new single brand will bring efficiencies and focus that when added to the Company's reputation for strength and stability, combined with prudent business practices as well as the depth and breadth of its distribution channels, positions the Company well for 2020 and beyond.

In 2020, Individual Customer will continue to advance on strategies to position for growth. The Company will further establish the value propositions for advisors in all channels, providing them with strategies and tools for helping customers focus on achieving long-term financial security regardless of life stage and market fluctuations. This commitment to advice is beneficial to strong customer retention as well as helping advisors attract new customers to the Company. A key distribution strategy will be to maximize the use of common tools, processes and support, while tailoring support to specific segments of advisors where appropriate.

The Company will continue to competitively develop, price and market its comprehensive range of individual insurance and individual wealth management products while maintaining its focus on sales and service support to customers and advisors in all channels. The Company will also continue to monitor and respond to the impacts of long-term interest rates and fee income compression.

Operational expense management continues to be critically important to delivering strong financial results. The Company will seek to achieve this through disciplined expense controls and effective development and implementation of strategic investments. Management has identified a number of areas of focus for these investments to facilitate the objective of organic growth, including continuing to invest in digital solutions to support advisors and customers and addressing its legacy of administration systems and processes to unlock the potential for future growth.

Group Customer

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Premiums and deposits [1]	**$ 4,119**	$ 4,563	$ 3,776	**$ 16,727**	$ 15,837
Sales [1]	**891**	1,500	968	**3,931**	3,899
Fee and other income	**184**	179	172	**708**	685
Net earnings	**114**	206	144	**632**	630

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2019 increased by $0.3 billion to $4.1 billion compared to the same quarter last year, primarily due to higher segregated fund deposits.

For the twelve months ended December 31, 2019, premiums and deposits increased by $0.9 billion to $16.7 billion compared to the same period last year. The increase was primarily due to ASO deposits for group insurance, higher segregated fund deposits and higher group insurance premiums.

Premiums and deposits for the fourth quarter of 2019 decreased by $0.4 billion to $4.1 billion compared to the previous quarter, primarily due to lower segregated fund deposits and lower premiums from single premium group annuities (SPGAs).

Sales

Sales for the fourth quarter of 2019 decreased by $0.1 billion to $0.9 billion compared to the same quarter last year, primarily due to lower sales of SPGAs.

For the twelve months ended December 31, 2019, sales of $3.9 billion were comparable to the same period last year.

Sales for the fourth quarter of 2019 decreased by $0.6 billion compared to the previous quarter, primarily due to lower SPGA sales, lower segregated fund sales for group wealth and lower large case sales for group insurance. Sales of large cases can be highly variable from quarter to quarter.

For the group wealth segregated fund business, net cash inflows for the fourth quarter of 2019 were $122 million, compared to net cash outflows of $73 million for the same quarter last year and net cash inflows of $242 million for the previous quarter. For the twelve months ended December 31, 2019, net cash inflows were $529 million compared to net cash outflows of $50 million for the same period last year.

Assets under administration – Group Retirement & Investment Services

	December 31	
	2019	2018
Assets under management [1]		
Risk-based products	**$ 8,532**	$ 8,207
Segregated funds	**52,697**	45,708
Institutional assets	**183**	177
Total assets under management [1]	**$61,412**	$ 54,092
Other assets under administration [1] [2]	**$ 472**	$ 400
Total assets under administration – Group Retirement & Investment Services [1]	**$61,884**	$ 54,492

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Includes mutual funds distributed by Quadrus, stock purchase plans administered by London Life and portfolio assets managed by GLC Asset Management Group.

Fee and other income

Fee and other income for the fourth quarter of 2019 increased by $12 million to $184 million compared to the same quarter last year, primarily due to higher average assets under management driven by higher average equity market levels.

For the twelve months ended December 31, 2019, fee and other income increased by $23 million to $708 million compared to the same period last year, primarily due to higher average assets under management driven by higher average equity market levels and higher ASO fee income.

Fee and other income for the fourth quarter of 2019 increased by $5 million compared to the previous quarter, primarily due to the same reason discussed for the year-to-date results.

Net earnings

Net earnings for the fourth quarter of 2019 decreased by $30 million to $114 million compared to the same quarter last year. The decrease was primarily due to lower contributions from insurance contract liability basis changes and less favourable morbidity experience, partially offset by higher contributions from investment experience. Insurance contract liability basis changes in the fourth quarter of 2019 include the impact of updates to mortality assumptions and refinements to certain investment related assumptions.

For the twelve months ended December 31, 2019, net earnings increased by $2 million to $632 million compared to the same period last year. The increase was primarily due to higher contributions from investment experience, partially offset by lower contributions from insurance contract liability basis changes.

Net earnings for the fourth quarter of 2019 decreased by $92 million compared to the previous quarter, primarily due to lower contributions from insurance contract liability basis changes and investment experience.

Outlook – Group Customer

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

During 2019, the Company maintained its strong competitive position in the Canadian group market with leading or strong market share in all case size, regional and benefit market segments. The Company believes that this market share position, together with its distribution capacity, will facilitate continued growth in net premium income.

Additionally, through ongoing investment in digital technologies and innovative benefit solutions, the Company expects to continue to enhance its competitive position in the marketplace. For example, in 2020 the Company will be launching an integrated plan member digital platform to service customers of Group Benefits and Group Savings products. This platform will facilitate a more streamlined experience for both members and plan sponsors.

The Canadian distribution landscape continues to evolve and the Company is working closely with all distribution partners to demonstrate how it can help build on the value of their advice.

Canada Corporate

Canada Corporate consists of items not associated directly with or allocated to the Canadian business units.

For the fourth quarter of 2019, Canada Corporate had a net loss of $13 million compared to $5 million for the same quarter last year, primarily due to lower net investment income on seed capital.

The net loss for the twelve months ended December 31, 2019 was $12 million compared to $40 million for the same period last year, primarily due to changes in certain income tax estimates and higher net investment income on seed capital. These items were partially offset by higher expenses related to expenses in preparation for the amalgamation of the Canadian life insurance companies.

In the fourth quarter of 2019, the net loss was $13 million compared to net earnings of $9 million in the previous quarter, primarily due to the less favourable impact of changes to certain income tax estimates and lower net investment income on seed capital.

United States

The United States operating results for Lifeco include the results of GWL&A (which operates primarily as 'Empower Retirement'), Putnam and the results of the insurance businesses in the United States branches of Great-West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results.

Through its Financial Services business unit, and specifically the Empower Retirement brand, the Company provides an array of financial security products, including employer-sponsored defined contribution plans, administrative and recordkeeping services, individual retirement accounts, fund management as well as investment and advisory services. Following the close of the reinsurance transaction with Protective Life in the second quarter of 2019, Financial Services also includes a retained block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.

Following the close of the reinsurance transaction with Protective Life in the second quarter of 2019, the Reinsured Insurance & Annuity Business, which was previously reflected in Financial Services, is being reported as a separate business unit. The Reinsured Insurance & Annuity Business unit reflects substantially all of the individual life insurance and annuity business which has been sold, through indemnity reinsurance, to Protective Life effective June 1, 2019. These products include life insurance, annuity and executive benefits, which are no longer offered by the U.S. segment.

Through its Asset Management business unit, the Company provides investment management, certain administrative functions, distribution and related services, through a broad range of investment products.

Translation of Foreign Currency

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Impact of currency movement is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Business Profile

Financial Services

Empower Retirement offers employer-sponsored defined contribution plans, individual retirement accounts, enrollment services, communication materials, investment options and education services. The Great-West Investments brand offers fund management, investment and advisory services. The Empower Institutional brand, formerly FASCore, offers private label recordkeeping and administrative services for other providers of defined contribution plans. Empower Retirement is the second largest defined contribution recordkeeper in the U.S. and the largest provider of services to state defined contribution plans.

Asset Management

Putnam provides investment management, certain administrative functions and distribution services. Putnam offers a broad range of investment products, including equity, fixed-income, absolute return and alternative strategies, through Putnam Funds, Putnam World Trust Funds and institutional portfolios (including hedge fund and other alternative strategies), model-based separately managed accounts (SMAs) and model portfolios. Revenue is derived from the value and composition of assets under management and performance fees as well as service and distribution fees. Accordingly, fluctuations in the financial markets and changes in the composition of assets or accounts affect revenues and results of operations.

Market Overview

Products and Services

The Company provides a focused product offering that is distributed through a variety of channels.

Financial Services

Market Position

- Second largest defined contribution recordkeeper in the country [1] by participants providing services for 9.4 million participant accounts and 39,634 plans [2]
- 22% market share in state and local government deferred compensation plans, based on number of participant accounts [3]
- Great-West Lifetime Funds are the 15th largest target date fund offering in the U.S. [2]

Products and Services

- Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services
- Administrative and recordkeeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans
- Fund management, investment and advisory services
- Individual retirement accounts (IRAs)

Distribution

- Retirement services products distributed to plan sponsors through brokers, consultants, advisors, third-party administrators and banks
- Empower Institutional recordkeeping and administrative services distributed through institutional clients
- IRAs available to individuals through the Retirement Solutions Group

(1) As at July 18, 2019

(2) As at December 31, 2019

(3) As at December 31, 2018

Asset Management

Market Position

- A global asset manager with assets under management of US$181.7 billion [1]
- Global distribution includes sales teams that are focused on major institutional markets in the U.S., Europe, the Middle East, Asia and Australia and through a long-standing strategic distribution relationship in Japan

Products and Services

Investment Management Products & Services

- Individual retail investors – a family of open-end and closed-end mutual funds, college savings plans and variable annuity products
- Institutional investors – defined benefit and defined contribution investment only plans sponsored by corporations, state, municipal and other governmental authorities, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.)
- Investment services for defined contribution investment only plans
- Alternative investment products across the fixed-income, quantitative and equity groups
- Seven equity model-based separately managed accounts (SMAs) and six multi-asset model portfolios

Administrative Services

- Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services

Distribution

Individual Retail Investors

- A broad network of distribution relationships with unaffiliated broker dealers, financial planners, registered investment advisors and other financial institutions that distribute the Putnam Funds and defined contribution investment only services to their customers, which, in total, includes approximately 136,000 advisors [1]
- Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents
- Retail distribution channels are supported by Putnam's sales and relationship management team
- Retirement plan sponsors and participants are supported by Putnam's dedicated defined contribution investment only professionals and through a relationship with Empower Retirement

Institutional Investors

- Supported by Putnam's dedicated account management, product management and client service professionals

(1) As at December 31, 2019

Competitive Conditions

Financial Services

The retirement and investment marketplaces are competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors and certain service and professional organizations. No one competitor or small number of competitors is dominant. Competition focuses on name recognition, service, technology, cost, variety of investment options, investment performance, product features, price and financial strength as indicated by ratings issued by nationally recognized agencies.

Asset Management

The investment management business is competitive. Putnam competes with other providers of investment products and services, primarily based on the range of investment products offered, investment performance, distribution, scope and quality of shareholder and other services as well as general reputation in the marketplace. Putnam's investment management business is also influenced by general securities market conditions, government regulations, global economic conditions as well as advertising and sales promotional efforts. Putnam competes with other mutual fund firms and institutional asset managers that offer investment products similar to Putnam as well as products that Putnam does not offer. Putnam also competes with a number of mutual fund sponsors that offer their funds directly to the public. Conversely, Putnam offers its funds only through intermediaries.

Selected consolidated financial information – United States

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Premiums and deposits [1] [2] [5]	**$ 19,480**	$ 17,670	$ 20,588	**$ 70,475**	$ 72,475
Sales [1]	**31,781**	31,245	32,080	**163,087**	105,948
Fee and other income [3] [5]	**679**	665	644	**3,767**	2,603
Net earnings – common shareholders [5]	**(121)**	77	55	**(61)**	388
Net earnings (US$) – common shareholders [4] [5]	**(92)**	59	41	**(45)**	292
Adjusted net earnings – common shareholders [1] [5]	**114**	77	55	**373**	388
Adjusted net earnings (US$) – common shareholders [1] [4] [5]	**87**	59	41	**282**	292
Total assets	**$ 85,612**	$ 87,090	$ 85,941		
Proprietary mutual funds and institutional assets [1]	**257,301**	250,183	235,075		
Total assets under management [1]	**342,913**	337,273	321,016		
Other assets under administration [1]	**792,110**	778,450	630,881		
Total assets under administration [1]	**$ 1,135,023**	$ 1,115,723	$ 951,897		

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) For the twelve months ended December 31, 2019, premiums and deposits excluded the initial ceded premium of $13,889 million (US$10,365 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

(3) For the twelve months ended December 31, 2019, fee and other income included a ceding commission of $1,080 million (US$806 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

(4) Net earnings (US$) – common shareholders and adjusted net earnings (US$) – common shareholders do not include $9 million of net foreign currency exchange gains for the twelve months ended December 31, 2018 as they do not have a US$ equivalent. These amounts are only included in Canadian dollar net earnings.

(5) Following the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life on June 1, 2019, the Company recorded a net loss of $199 million (US$148 million) related to the transaction in the Reinsured Insurance & Annuity Business results. For the twelve months ended December 31, 2019, the impacts to the Consolidated Statements of Earnings are outlined in the table below:

Impact on Consolidated Statements of Earnings of reinsurance of U.S. individual life insurance and annuity business:	
Net premiums (initial ceded premiums)	$ (13,889)
Fee and other income (initial ceding commission)	1,080
Net investment income	219
Total paid or credited to policyholders	12,463
Operating, administrative and other expenses	(120)
Total pre-tax net loss per note 3 in the Company's December 31, 2019 consolidated financial statements	**(247)**
Income taxes	48
Total after-tax net loss	**$ (199)**

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Financial Services [1]	**$ 100**	$ 63	$ 48	**$ 278**	$ 240
Asset Management	**18**	13	(29)	**33**	(61)
Corporate	**(239)**	1	–	**(236)**	52
Reinsured Insurance & Annuity Business [1] [2]	**–**	–	36	**(136)**	157
Net earnings – common shareholders	**$ (121)**	$ 77	$ 55	**$ (61)**	$ 388
Adjustments [2]					
Revaluation of a deferred tax asset [3]	**199**	–	–	**199**	–
Restructuring costs [3]	**36**	–	–	**36**	–
Net charge on sale, via reinsurance, of a U.S. business	**–**	–	–	**199**	–
Adjusted net earnings – common shareholders [2]	**$ 114**	$ 77	$ 55	**$ 373**	$ 388
Financial Services (US$) [1]	**$ 76**	$ 49	$ 36	**$ 211**	$ 184
Asset Management (US$)	**13**	9	(22)	**24**	(47)
Corporate (US$)	**(181)**	1	–	**(179)**	33
Reinsured Insurance & Annuity Business [1] [2]	**–**	–	27	**(101)**	122
Net earnings (US$) – common shareholders	**$ (92)**	$ 59	$ 41	**$ (45)**	$ 292
Adjustments [2]					
Revaluation of a deferred tax asset (US$) [3]	**151**	–	–	**151**	–
Restructuring costs (US$) [3]	**28**	–	–	**28**	–
Net charge on sale, via reinsurance, of a U.S. business (US$)	**–**	–	–	**148**	–
Adjusted net earnings (US$) – common shareholders [2]	**$ 87**	$ 59	$ 41	**$ 282**	$ 292

(1) Reinsured Insurance & Annuity Business reflects business transferred to Protective Life Insurance on June 1, 2019 and includes the net charge on sale, via reinsurance, of a U.S. business of $199 million (US$148 million). Comparative figures have been adjusted to reflect current presentation.

(2) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(3) The revaluation of a deferred tax asset of $199 million (US$151 million) and restructuring costs of $36 million (US$28 million) are included in the Corporate results.

2019 Developments

- On June 5, 2019, the Securities and Exchange Commission adopted and released Regulation Best Interest (the Rule). The Rule establishes a new standard of conduct requiring broker-dealers to satisfy a higher standard of care and disclosure when recommending securities and investment strategies, including rollovers and account recommendations, to retail clients and retirement plan participants. The Rule does not apply to discussions with plan sponsors. The Rule is effective June 30, 2020 and the Company intends to fully comply with the Rule by that date. Management does not expect that the Rule will prevent the Company from executing on its overall business strategy and growth objectives.
- During 2019, Putnam undertook actions to realign its resources to better position itself for current and future opportunities. These actions included technology modernization, product consolidation, a reduction in staff and facilities reorganization. During the fourth quarter of 2019, the Company recorded restructuring costs which reduced net earnings by $36 million (US$28 million) relating to these initiatives. The Company expects to realize US$33 million in pre-tax annual operating expense savings as a result of the restructuring activities mostly by the end of the fourth quarter of 2020. As of December 31, 2019, approximately US$24 million in pre-tax annual operating expense savings have been achieved. These restructuring costs are included in the U.S. Corporate results.
- During the fourth quarter of 2019, management determined that a revaluation of the deferred income tax asset pertaining to the Asset Management business unit was appropriate due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses generated in the earliest loss years. The impact was a charge to net earnings of $199 million (US$151 million) and is included in the U.S. Corporate results.

Business Units – United States

Financial Services

2019 Developments

- Effective June 1, 2019, GWL&A, a subsidiary of the Company, completed the sale, via indemnity reinsurance, of substantially all of its individual life insurance and annuity business to Protective Life who now assumes the economics and risks associated with the reinsured business. The transaction resulted in an after-tax transaction value of approximately $1.6 billion (US$1.2 billion), excluding one-time expenses. The transaction value included a ceding commission of $1,080 million (US$806 million) and a capital release of approximately $530 million (US$400 million). The business transferred included bank-owned and corporate-owned life insurance, single premium life insurance, individual annuities as well as closed block life insurance and annuities. Because the transaction is structured as a reinsurance agreement, the Company will hold both the liability and offsetting reinsurance asset. Protective Life will assume the economics and risks associated with the reinsured business.

  In the second quarter of 2019, the Company recognized a loss related to this transaction of $199 million (US$148 million), which included transaction costs of $63 million (US$47 million) and $36 million (US$27 million) due to updated expense assumptions primarily related to stranded overhead. The liabilities transferred and ceding commission received at the closing of this transaction are subject to future adjustments. In October 2019, Protective Life provided the Company with its listing of proposed adjustments with respect to the liabilities transferred. In December 2019, the Company formally objected to these proposed adjustments. The Master Transaction Agreement requires the parties to attempt to resolve these differences in an informal manner and that process is ongoing. Based on the information presently known, it is difficult to predict the outcome of this matter with certainty, but this matter is not expected to materially impact the consolidated financial position of the Company.

  GWL&A has retained a block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.
- Empower Retirement participant accounts have grown to 9.4 million at December 31, 2019 from 8.8 million at December 31, 2018.
- Empower Retirement assets under administration were US$673 billion at December 31, 2019, up from US$516 billion at December 31, 2018.
- During the third quarter of 2019, Empower Retirement announced it entered into a 21-year agreement with the Denver Broncos Football Club and Metropolitan Football Stadium District for the naming rights to the Denver Broncos' stadium, which will now be known as "Empower Field at Mile High." The agreement gives Empower Retirement national brand and media exposure, serving as the home for the Broncos and more than 300 other events annually.
- During 2019, the Company received the following awards and rankings:

  - In a PLANADVISER Retirement Plan Adviser Survey, Empower Retirement was rated the overall most favourable plan provider and number 1 by retirement professionals in seven categories.

  - In a Newsweek list of "America's Best Companies for Customer Service 2019", Empower Retirement was in the top three ranked companies with which to save for retirement by U.S. customers who have used the services.

  - In a PLANSPONSOR survey, Empower Retirement received 50 best-in-class awards.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Premiums and deposits [1] [2] [3]	**$ 3,150**	$ 3,071	$ 2,595	**$ 11,783**	$ 10,375
Sales [1] [2] [4]	**15,798**	16,885	14,234	**105,380**	44,447
Fee and other income [2]	**376**	369	318	**1,428**	1,270
Net earnings [2] [5]	**100**	63	48	**278**	240
Premiums and deposits (US$) [1] [2] [3]	**$ 2,386**	$ 2,327	$ 1,967	**$ 8,877**	$ 8,014
Sales (US$) [1] [2] [4]	**11,968**	12,792	10,783	**79,353**	34,301
Fee and other income (US$) [2]	**285**	280	241	**1,076**	981
Net earnings (US$) [2] [5]	**76**	49	36	**211**	184

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) The operating results of Financial Services have been restated for comparative periods to reflect the impact of the reinsurance transaction with Protective Life, which closed on June 1, 2019. Following the close of the reinsurance transaction, and included in Financial Services results, the Company will retain a block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.

(3) For the three months and twelve months ended December 31, 2019, premiums and deposits included US$54 million and US$166 million, respectively, relating to the retained policies (US$54 million and US$192 million for the three and twelve months ended December 31, 2018, US$34 million for the three months ended September 30, 2019).

(4) For the three months and twelve months ended December 31, 2019, sales included US$0.3 billion and US$1.1 billion, respectively, relating to Putnam managed funds sold on the Empower Retirement platform (US$0.3 billion and US$1.1 billion for the three and twelve months ended December 31, 2018, and US$0.3 billion for the three months ended September 30, 2019).

(5) For the three months and twelve months ended December 31, 2019, net earnings included a net loss of US$19 million and net earnings of US$6 million, respectively, relating to the retained policies (US$4 million and US$31 million for the three and twelve months ended December 31, 2018, and US$6 million for the three months ended September 30, 2019).

Premiums and deposits

Premiums and deposits for the fourth quarter of 2019 of US$2.4 billion increased by US$0.4 billion compared to the same quarter last year and by US$0.1 billion compared to the previous quarter, primarily due to higher deposits from existing Empower Retirement participants.

Premium and deposits for the twelve months ended December 31, 2019 increased by US$0.9 billion to US$8.9 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Sales

Sales in the fourth quarter of 2019 increased by US$1.2 billion to US$12.0 billion compared to the same quarter last year, primarily due to higher Empower Retirement mid and small sized plans, partially offset by lower Empower Retirement large plan sales. Large plan sales can be highly variable from period to period and tend to be lower margin; however, contribute to covering fixed overhead costs.

For the twelve months ended December 31, 2019, sales increased by US$45.1 billion to US$79.4 billion compared to the same period last year, primarily due to higher Empower Retirement sales across all products lines, including several large plan sales.

Sales in the fourth quarter of 2019 decreased by US$0.8 billion compared to the previous quarter, primarily due to lower Empower Retirement large plan sales, partially offset by higher small and mid-sized plan sales.

Empower Retirement – assets under administration (US$)

	December 31	
	2019	2018
General account – fixed options	**$ 13,532**	$ 12,979
Segregated funds – variable options	**19,504**	14,966
Proprietary mutual funds [1]	**30,949**	24,098
Unaffiliated retail investment options & administrative services only	**609,316**	463,883
	$ 673,301	$ 515,926

(1) At December 31, 2019, proprietary mutual funds included US$13.7 billion in Putnam managed funds (US$10.6 billion at December 31, 2018).

Empower Retirement customer account values at December 31, 2019 increased by US$157.4 billion compared with December 31, 2018, primarily due higher equity market levels and net cash inflows across investment categories, primarily within unaffiliated retail investment options & administrative services only.

Fee and other income

Fee income is derived primarily from assets under management, assets under administration, shareholder servicing fees, administration and recordkeeping services and investment advisory services. Generally, fees are earned based on assets under management, assets under administration or the number of plans and participants for which services are provided.

Fee and other income for the fourth quarter of 2019 of US$285 million increased by US$44 million compared to the same quarter last year and by US$5 million compared to the previous quarter, primarily due to higher average equity markets and growth in participants.

For the twelve months ended December 31, 2019, fee and other income increased by US$95 million to US$1,076 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the fourth quarter of 2019 of US$76 million increased by US$40 million compared to the same quarter last year. The increase was primarily due to the impact of a partial settlement of an employee pension plan, higher contributions from investment experience and net business growth, partially offset by higher operating expenses.

For the twelve months ended December 31, 2019, net earnings increased by US$27 million to US$211 million compared to the same period last year. The increase was primarily due to the impact of a valuation adjustment on an employee pension plan, higher contributions from investment experience and net business growth, partially offset by lower contributions from insurance contract liability basis changes and higher operating expenses.

Net earnings for the fourth quarter of 2019 of US$76 million increased by US$27 million compared to the previous quarter, primarily due to the impact of a valuation adjustment on an employee pension plan and higher contributions from investment experience, partially offset by higher operating expenses.

Outlook – Financial Services

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

As the second largest recordkeeping provider in the U.S., Empower Retirement is positioned for significant growth opportunities with expertise and diversification across all plan types, company sizes and market segments. The Financial Services business unit continually examines opportunities to structure products and develop strategies to stimulate growth in assets under management.

In 2020, Empower Retirement's strategies to drive sales growth will continue to include active marketing of the brand, investing in product differentiation and offering a best-in-class service model. In 2019, service enhancements were made to this model including standardizing and improving client-facing tools, optimizing advisor relationship management and client alignment as well as adopting best practices for participant communications. In 2020, investments will continue to be made to improve the customer web experiences, including adding innovative capabilities and ease of service products. These efforts are expected to increase customer retention and ultimately increase participant retirement savings.

Asset Management

2019 Developments

- Putnam's ending assets under management (AUM) at December 31, 2019 of US$181.7 billion increased by US$21.5 billion compared to the same period last year, while average AUM for the twelve months ended December 31, 2019 of US$173.2 billion increased by US$0.6 billion compared to the same period last year. For the three and twelve months ended December 31, 2019, mutual fund net inflows were US$1.5 billion and US$2.4 billion, respectively.
- Putnam continues to sustain strong investment performance relative to its peers. As of December 31, 2019, approximately 82% of Putnam's fund assets performed at levels above the Lipper median on a three-year basis, and approximately 86% on a five-year basis.
- During the fourth quarter of 2019, Putnam began offering seven equity model-based separately managed accounts and six multi-asset model portfolios. These offerings will help to satisfy emerging preferences among investors for strategies that are generally cost-effective, tax efficient and provide opportunities for customization, enabling investors to screen for certain investments that are in conflict with their personal values.
- For the 30th consecutive year, Putnam has been recognized by DALBAR Inc. for mutual fund service quality. This recognition includes Putnam being named as a DALBAR Mutual Fund Service Award winner for 28 of those years. Additionally, Putnam has been named the sole recipient of DALBAR's Total Client Experience Award recognizing overall mutual fund customer service quality for the past nine years.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Sales [1]	**$ 15,983**	$ 14,360	$ 17,483	**$ 57,299**	$ 59,848
Fee income					
Investment management fees	**206**	205	199	**813**	821
Performance fees	**2**	(3)	(8)	**(10)**	(38)
Service fees	**37**	37	37	**149**	148
Underwriting & distribution fees	**58**	57	57	**230**	241
Fee income	**303**	296	285	**1,182**	1,172
Core net earnings [1]	**28**	22	(18)	**78**	(11)
Less: Financing and other expenses (after-tax) [1]	**(10)**	(9)	(11)	**(45)**	(50)
Reported net earnings (loss)	**18**	13	(29)	**33**	(61)
Sales (US$) [1]	**$ 12,108**	$ 10,879	$ 13,245	**$ 43,185**	$ 46,164
Fee income (US$)					
Investment management fees (US$)	**155**	155	151	**611**	634
Performance fees (US$)	**2**	(2)	(6)	**(6)**	(30)
Service fees (US$)	**28**	28	28	**112**	115
Underwriting & distribution fees (US$)	**44**	43	43	**173**	186
Fee income (US$)	**229**	224	216	**890**	905
Core net earnings (US$) [1]	**21**	17	(14)	**59**	(8)
Less: Financing and other expenses (after-tax) (US$) [1]	**(8)**	(8)	(8)	**(35)**	(39)
Reported net earnings (loss) (US$)	**13**	9	(22)	**24**	(47)
Pre-tax operating margin [1]	**7.2%**	9.5%	(10.8)%	**8.1%**	(1.5)%
Average assets under management (US$) [1]	**$ 178,023**	$ 174,268	$ 168,743	**$ 173,159**	$ 172,579

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Sales

Sales in the fourth quarter of 2019 decreased by US$1.1 billion to US$12.1 billion compared to the same quarter last year, primarily due to a decrease in mutual fund sales of US$1.0 billion.

For the twelve months ended December 31, 2019, sales decreased by US$3.0 billion to US$43.2 billion compared to the same period last year, primarily due to a decrease in mutual fund sales of US$2.0 billion and a decrease in institutional sales of US$1.0 billion.

Sales in the fourth quarter of 2019 increased by US$1.2 billion compared to the previous quarter, primarily due to a US$1.1 billion increase in mutual fund sales.

Fee income

Fee income is derived primarily from investment management fees, performance fees, transfer agency and other service fees, as well as underwriting and distribution fees. Generally, fees are earned based on AUM and may depend on financial markets, the relative performance of Putnam's investment products, the number of retail accounts and sales. Performance fees are generated on certain mutual funds and institutional portfolios and are generally based on a rolling 36-month performance period for mutual funds and a 12-month performance period for institutional portfolios. Performance fees on mutual funds are symmetric, and as a result, can be positive or negative.

Fee income for the fourth quarter of 2019 increased by US$13 million to US$229 million compared to the same quarter last year. The increase was primarily due to higher investment management fees, driven by higher average AUM and higher institutional and mutual fund performance fees.

For the twelve months ended December 31, 2019, fee income decreased by US$15 million to US$890 million compared to the same period last year. The decrease was primarily due to lower investment management fees, driven by a change in asset mix, as well as lower underwriting and distribution fees, partially offset by improved mutual fund performance fees.

Fee income for the fourth quarter of 2019 increased by US$5 million compared to the previous quarter, primarily due to higher institutional performance fees.

Net earnings

Core net earnings for the fourth quarter of 2019 were US$21 million compared to a core net loss of US$14 million for the same quarter last year. Core net earnings increased by US$35 million primarily due to higher net investment income on seed capital and higher net fee income. In the fourth quarter of 2019, reported net earnings, including financing and other expenses, were US$13 million compared to a reported net loss of US$22 million for the same quarter last year. Financing and other expenses for the fourth quarter of 2019 of US$8 million were comparable to the same quarter last year.

For the twelve months ended December 31, 2019, core net earnings were US$59 million, compared to a core net loss of US$8 million for the same period last year, primarily due to higher net investment income on seed capital and lower operating expenses, which included the impact of expense reduction initiatives, partially offset by lower net fee income. For the twelve months ended December 31, 2019, reported net earnings, including financing and other expenses, were US$24 million compared to a reported net loss of US$47 million for the same period last year. Financing and other expenses for the twelve month period ended December 31, 2019 decreased by US$4 million to US$35 million compared to the same period last year, primarily due to lower net financing costs as a result of debt refinancing during the prior year.

Core net earnings for the fourth quarter of 2019 were US$21 million compared to core net earnings of US$17 million for the previous quarter. Core net earnings increased by US$4 million, primarily due to higher fee income, higher net investment income and additional tax benefits, partially offset by higher operating expenses. Reported net earnings, including financing and other expenses, for the fourth quarter of 2019, were US$13 million compared to reported net earnings of US$9 million for the previous quarter. Financing and other expenses for the fourth quarter of 2019 of US$8 million were comparable to the previous quarter.

Assets Under Management

Assets under management (US$) [1]

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Beginning assets	**$ 174,191**	$ 174,661	$ 177,199	**$ 160,200**	$ 171,458
Sales – Mutual funds	**7,798**	6,703	8,817	**27,474**	29,454
Redemptions – Mutual funds	**(6,316)**	(5,642)	(8,341)	**(25,031)**	(27,036)
Net asset flows – Mutual funds	**1,482**	1,061	476	**2,443**	2,418
Sales – Institutional	**4,310**	4,176	4,428	**15,711**	16,710
Redemptions – Institutional	**(5,587)**	(6,784)	(6,055)	**(22,081)**	(18,712)
Net asset flows – Institutional	**(1,277)**	(2,608)	(1,627)	**(6,370)**	(2,002)
Net asset flows – Total	**205**	(1,547)	(1,151)	**(3,927)**	416
Impact of market/performance	**7,328**	1,077	(15,848)	**25,451**	(11,674)
Ending assets	**$ 181,724**	$ 174,191	$ 160,200	**$ 181,724**	$ 160,200
Average assets under management					
Mutual funds	**86,824**	83,937	79,198	**83,096**	79,780
Institutional assets	**91,199**	90,331	89,545	**90,063**	92,799
Total average assets under management	**$ 178,023**	$ 174,268	$ 168,743	**$ 173,159**	$ 172,579

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Average AUM for the three months ended December 31, 2019 were US$178.0 billion, an increase of US$9.3 billion or 5% compared to the same quarter last year, primarily due to the impact of markets and cumulative mutual fund net asset inflows, partially offset by cumulative institutional net asset outflows. Net asset inflows for the fourth quarter of 2019 were US$0.2 billion compared to net assets outflows of US$1.2 billion for the same quarter last year. In-quarter mutual fund net asset inflows were US$1.5 billion and institutional net asset outflows were US$1.3 billion.

Average AUM for the twelve months ended December 31, 2019 increased by US$0.6 billion to US$173.2 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results. Net asset outflows for the twelve months ended December 31, 2019 were US$3.9 billion compared to net assets inflows of US$0.4 billion for the same period last year. Year-to-date mutual fund net asset inflows of US$2.4 billion were more than offset by institutional net asset outflows of US$6.4 billion.

Average AUM for the three months ended December 31, 2019 increased by US$3.8 billion compared to the previous quarter, primarily due to the impact of markets.

Outlook – Asset Management

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

Putnam remains committed to providing strong, long-term investment performance across asset classes for its clients and investors in the mutual fund, institutional and retirement marketplaces.

In 2020, Putnam will continue to focus efforts on driving growth and market share through new sales and asset retention in all markets it serves including Global Institutional, PanAgora (Putnam's quantitative institutional manager), U.S. Retail and Defined Contribution Investment Only, while maintaining its industry recognized reputation for service excellence.

Innovation will remain a key differentiator in 2020, as Putnam further develops its product offerings, service features and operational functions, while bolstering its corporate and business/product brand image with a wide range of key constituents. Putnam continues to increasingly incorporate digital technology throughout its business to drive greater efficiencies and create business opportunities.

Putnam will continue to focus on growth of revenues and assets in 2020, while at the same time managing firm-wide expenses, as the firm seeks to build a scalable, profitable asset management franchise.

United States Corporate

U.S. Corporate consists of items not associated directly with or allocated to the United States business units, including the impact of certain non-continuing items related to the U.S. segment.

In the fourth quarter of 2019, the net loss was US$181 million compared to net earnings of nil for the same period in 2018, which includes the impact of a revaluation of a deferred tax asset of US$151 million and restructuring costs of US$28 million both related to the Asset Management business unit. Excluding these items, the adjusted net loss increased by US$2 million primarily due to higher operating expenses, partially offset by higher net investment income.

Excluding the revaluation of a deferred tax asset and restructuring costs related to the Asset Management business unit discussed for the in-quarter results, net earnings for the twelve months ended December 31, 2019 were nil compared to net earnings of US$33 million in the same period in 2018. The decrease was primarily due to a gain in the prior year which resulted from the termination of an interest rate hedge as part of a debt refinancing transaction.

Excluding a revaluation of a deferred tax asset and restructuring costs related to the Asset Management business unit discussed for the in-quarter results, the net loss in the fourth quarter of 2019, was US$2 million comparable to net earnings of US$1 million in the previous quarter.

The 2018 year-to-date U.S. Corporate U.S. dollar net earnings do not include $9 million of net foreign currency exchange gains which occurred in the second quarter of 2018 as a result of debt redemptions as they do not have a U.S. dollar equivalent. These amounts are only included in Canadian dollar net earnings.

Reinsured Insurance & Annuity Business

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Premiums and deposits [1] [2]	**$ 347**	$ 239	$ 510	**$ 1,393**	$ 2,252
Sales [1]	**–**	–	363	**408**	1,653
Fee and other income [3]	**–**	–	41	**1,157**	161
Net earnings	**–**	–	36	**(136)**	157
Adjusted net earnings [1]	**–**	–	36	**63**	157
Premiums and deposits (US$) [1] [2]	**$ 262**	$ 181	$ 386	**$ 1,049**	$ 1,739
Sales (US$) [1]	**–**	–	275	**306**	1,277
Fee and other income (US$) [3]	**–**	–	31	**864**	124
Net earnings (US$)	**–**	–	27	**(101)**	122
Adjusted net earnings (US$) [1]	**–**	–	27	**47**	122

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) For the twelve months ended December 31, 2019, premiums and deposits excluded the initial ceded premium of $13,889 million (US$10,365 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

(3) For the twelve months ended December 31, 2019, fee and other income included a ceding commission of $1,080 million (US$806 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

The Reinsured Insurance & Annuity Business unit results reflect sales, fee and other income and net earnings up to June 1, 2019. Following the sale, via indemnity reinsurance, on June 1, 2019 to Protective Life, there were no additional sales, fee and other income and net earnings related to this business unit. Premiums and deposits for the three months ended December 31, 2019 of US$262 million and for the three months ended September 30, 2019 of US$181 million primarily related to deposits received on separate accounts, with the economics ceded to Protective Life, resulting in no net earnings impact.

Europe

The Europe segment comprises two distinct business units: Insurance & Annuities and Reinsurance, together with an allocation of a portion of Lifeco's corporate results. Insurance & Annuities provides protection and wealth management products, including payout annuity products, through subsidiaries of Canada Life in the U.K., the Isle of Man and Germany, as well as through Irish Life in Ireland. Reinsurance operates primarily in the U.S., Barbados and Ireland, and is conducted through Canada Life, London Life and their subsidiaries.

Translation of Foreign Currency

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Impact of currency movement is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Business Profile

Insurance & Annuities

The core products offered in the U.K. are bulk and individual payout annuities, equity release mortgages, investments (including life bonds, retirement drawdown and pension), individual protection and group insurance. These products are distributed through independent financial advisors and employee benefit consultants. The U.K.'s international operations based in the Isle of Man and Dublin, Ireland offer investment, savings and individual protection products that are sold through independent financial advisors and private banks in the U.K. and in other selected territories.

On June 21, 2018, Canada Life Limited, an indirect wholly-owned subsidiary of the Company, announced an agreement to sell a heritage block of individual policies to Scottish Friendly which were a mainly closed block. The transfer to Scottish Friendly completed on November 1, 2019. Canada Life Investments will continue to manage a portion of unit-linked assets which transferred to Scottish Friendly.

The core products offered by Irish Life in Ireland are savings and investments, individual and group life insurance, health insurance and pension products. These products are distributed through independent brokers, a direct sales force and tied agent bank branches. Irish Life Health offers individual and corporate health plans, distributed through independent brokers and direct channels. Irish Life Investment Managers (ILIM) is one of the Company's fund management operations in Ireland with approximately €85 billion of assets under management. In addition to managing assets on behalf of companies in the Lifeco group, ILIM also manages assets for a wide range of institutional and retail clients, occupational defined benefit and defined contribution pension schemes, large multinational corporations, charities and domestic companies.

The German operation focuses on pension, lifetime GMWB and individual protection products that are distributed through independent brokers and multi-tied agents.

Insurance & Annuities continues to expand its presence in its defined market segments by focusing on the introduction of innovative products and services, the quality of its service offerings as well as the enhancement of distribution capabilities and intermediary relationships.

Reinsurance

Reinsurance provides capital and risk solutions and operates primarily in the U.S., Barbados and Ireland. In the U.S., the reinsurance business operates through branches of Canada Life, London Life, subsidiaries of London Life and an indirect subsidiary of GWL&A. In Barbados, the reinsurance business operates primarily through branches of Canada Life, London Life and subsidiaries of London Life. In Ireland, the reinsurance business operates through a subsidiary of Canada Life. Effective January 1, 2020, following the amalgamation of Great-West Life, London Life and Canada Life, the Reinsurance business will be operated through the Canada Life branches, subsidiaries of Canada Life and an indirect subsidiary of GWL&A.

The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to allow those companies to manage their insurance risk.

The product portfolio offered by the Company includes life, annuity/longevity, mortgage and property catastrophe reinsurance, provided on both a proportional and non-proportional basis.

In addition to providing reinsurance products to third parties, the Company also utilizes internal reinsurance transactions between companies in the Lifeco group. These transactions are undertaken to better manage insurance risks relating to retention, volatility and concentration; and to facilitate capital management for the Company, its subsidiaries and branch operations. These internal reinsurance transactions produce benefits that are reflected in one or more of the Company's other business units.

Market Overview

Products and Services

Insurance & Annuities

Market Position

U.K.
- Group life market share 25% [1]
- Group income protection market share 17% [1]
- Payout annuities market share 17% (Advisor only) [2]
- A market leading international life company selling into the U.K. market, with over 30% market share [3]
- Among the top five in the onshore unit-linked single premium bond market, with 19% market share (Advisor only) [3]
- An award winning competitor in the equity release market with a market share of 8.4% [6]

Ireland
- Life assurance company market share 34% [4]
- Retail life and pensions market share 31% [4]
- Group pensions, group risk and corporate annuities market share 39% [4]
- ILIM is one of the largest institutional fund managers in Ireland with €85 billion assets under management [5]
- Third largest health insurance business through Irish Life Health [1]

Germany
- 5% share of the broker market [3]

Products and Services

U.K.
- Individual and bulk payout annuities
- Fixed term annuities
- Individual savings and investments (retirement drawdown & pension, onshore & international bonds and collective investment funds)
- Group and individual life insurance
- Group income protection (disability)
- Group and individual critical illness
- Equity release mortgages

Ireland
- Individual and group risk & pensions
- Individual and bulk payout annuities
- Health insurance
- Wealth management services
- Individual savings and investment
- Institutional investment management

Germany
- Pensions
- Income protection (disability)
- Critical illness
- Variable annuities (GMWB)
- Individual life insurance

Insurance & Annuities (cont'd)

Distribution

U.K.
- Financial advisors
- Private banks
- Employee benefit consultants

Ireland
- Independent brokers
- Pensions and investment consultants
- Direct sales force
- Tied bank branch distribution with various Irish banks

Germany
- Independent brokers
- Multi-tied agents

(1) As at December 31, 2018

(2) Market share based on annualized first quarter to third quarter 2019 data through financial advisors, restricted whole market advisors and non-advised distributor.

(3) Based on annualized first quarter to third quarter 2019 data

(4) As at June 30, 2019

(5) As at December 31, 2019

(6) Equity Release Council market statistics for fourth quarter 2018 to third quarter 2019

Reinsurance

Market Position
- Among the top two life reinsurers in the U.S. for assumed structured life reinsurance [1]
- Leading player in the evolving European structured life reinsurance market
- Ranked 6th for traditional mortality reinsurance in the U.S.
- Leading provider of U.K. and other European annuity/longevity reinsurance
- Long-standing provider of a range of property and casualty catastrophe retrocession coverages

Products and Services

Life
- Yearly renewable term
- Co-insurance
- Modified co-insurance
- Capital relief solutions

Mortgage Reinsurance
- Stop loss

Annuity / Longevity
- Payout annuity
- Longevity protection
- Fixed annuity

Property & Casualty
- Catastrophe retrocession

Distribution
- Independent reinsurance brokers
- Direct placements

(1) As at November 30, 2019

Competitive Conditions

United Kingdom

In the U.K., the Company has strong market positions for payout annuities, wealth management and group risk, where it is a market leader. Combined sales from the onshore and international wealth management businesses put Canada Life as one of the top single investment premium bond providers in the U.K.

The market for payout annuities continued to grow in 2019. Due to a regulatory initiative, the Company has benefited from an increase in the proportion of customers seeking the best price in the open market. This has increased the proportion of customers buying annuities through financial advisors, which are the Company's primary distribution channel. The Company continues to offer both standard and enhanced annuities as well as investment based pension and drawdown products for customers wanting to take advantage of the greater pension flexibility introduced in recent years. The Company expects further growth in the retirement retail market and is well placed to continue to grow in this market, supported by the expertise and addition of equity release mortgages gained through the Retirement Advantage purchase in 2018. The equity release mortgage sector is becoming an increasingly important part of the retirement retail market and is expected to be an area of growth. The Company also offers bulk annuities aimed at trustees of defined benefits plans who want to insure pension annuities in payment. This is a large market and demand from trustees remains strong. The market is expected to grow as pension plan funding improves and trustees consider ways to reduce risk. With expertise and experience in longevity and investment products, the Company is well placed to continue to grow bulk annuity new business.

In international wealth management operations, there was market growth of 7% during the year. Continued efforts to increase sales within the retail market along with strong sales from the institutional sector of the market resulted in total sales of £1.4 billion for 2019. Future estate planning continues to be an area of focus for U.K. advisors and Canada Life International remains one of the leading companies in this sector of the market.

Ireland

The Company continues to be the largest life assurance company in Ireland with a market share of 34% as at June 30, 2019. Irish Life follows a multi-channel distribution strategy with the largest broker distribution network, the largest direct sales force and the largest Bancassurance distribution network where it has tied relationships with five banks.

Irish Life Investment Managers is one of Ireland's largest institutional fund managers with approximately €85 billion of assets under management, including funds managed for other companies within the Lifeco group, as at December 31, 2019. During 2019, in addition to maintaining its market leading position in Ireland, ILIM continued to expand its global footprint with international assets under management growth through new institutional relationships and mandates.

Setanta Asset Management, a subsidiary of the Company, manages assets for a number of institutional clients, both third-party institutions as well as for companies in the Lifeco group and has approximately €12 billion of assets under management as at December 31, 2019.

The Company operates its Irish health insurance business under the Irish Life Health brand, where it has a top three position.

Germany

The Company has established a leading position among providers of products to the German independent intermediary market. The Company is among the top six providers in the independent intermediary market through continuous product, technology and service improvements and sales have grown 9% in 2019. The market for traditional German insurance products has been challenging following the introduction of Solvency II in 2016 combined with the continued low interest rate environment. This new environment is moving German insurance providers to offer hybrid and lighter guarantee products which provides increased competition in the Canada Life product categories.

Reinsurance

In the U.S. life reinsurance market, insurers continue to view reinsurance as an important tool for risk and capital management. Several competitors are now focusing on growing their market share, which resulted in increased competition. However, an independent industry survey released in November 2019 confirmed that the Company remains one of the top two providers of risk and capital management solutions in the U.S. market.

The Company has also had success in traditional life reinsurance as the number of remaining life reinsurers is declining due to consolidation and clients valuing diversification of reinsurers. The Company's financial strength and ability to offer risk and capital solutions and traditional mortality reinsurance continues to be a competitive advantage.

In Europe, Solvency II dominates the regulatory landscape and interest in capital relief transactions that produce capital benefits continues to grow. Demand for longevity reinsurance remains very strong in the U.K., the Netherlands in particular and some other continental European countries. As a result, there are now more reinsurers participating in this market, but even so, demand for longevity coverage continues to be strong.

Selected consolidated financial information – Europe

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Premiums and deposits [1]	**$ 12,387**	$ 11,694	$ 10,357	**$ 52,817**	$ 40,489
Fee and other income	**379**	384	348	**1,548**	1,480
Net earnings – common shareholders	**452**	357	349	**1,390**	1,311
Adjusted net earnings – common shareholders [1]	**444**	357	349	**1,382**	1,367
Total assets	**$ 189,251**	$ 185,387	$ 180,842		
Proprietary mutual funds and institutional assets [1]	**56,261**	51,389	40,375		
Total assets under management [1]	**245,512**	236,776	221,217		
Other assets under administration [1]	**48,738**	46,040	45,024		
Total assets under administration [1] [2]	**$ 294,250**	$ 282,816	$ 266,241		

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) At December 31, 2019, total assets under administration excludes $8.4 billion of assets managed for other business units within the Lifeco group of companies ($8.2 billion at September 30, 2019 and $7.8 billion at December 31, 2018).

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Insurance & Annuities	**$ 334**	$ 306	$ 271	**$ 1,050**	$ 1,036
Reinsurance	**124**	55	89	**353**	377
Europe Corporate [1]	**(6)**	(4)	(11)	**(13)**	(102)
Net earnings – common shareholders	**$ 452**	$ 357	$ 349	**$ 1,390**	$ 1,311
Adjustments [1]					
Net gain on Scottish Friendly transaction	**(8)**	–	–	**(8)**	–
Restructuring costs	**–**	–	–	**–**	56
Adjusted net earnings – common shareholders [1]	**$ 444**	$ 357	$ 349	**$ 1,382**	$ 1,367

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

2019 Developments

- On January 31, 2020, the U.K. left the European Union (EU) and entered a transition arrangement that will last until the end of 2020. The Company's U.K. and other European businesses have taken the necessary steps to handle the immediate impacts of Brexit and will continue to monitor any further steps that may become necessary as the U.K. and Europe negotiate their future relationship. While market volatility continues, it is not expected to have a material impact on the Company's financial results as the Company's businesses are principally domestic to the countries where they are based.
- In 2018, Canada Life Limited, an indirect wholly-owned U.K. subsidiary of the Company, announced an agreement to sell a heritage block of individual policies to Scottish Friendly, comprised of unit-linked policies and non unit-linked policies. On October 22, 2019, the required court approval for the transfer of these policies was received and this transfer occurred, effective November 1, 2019. In the fourth quarter of 2019, the Company recognized a gain of $8 million after-tax related to this transaction which is included in the Europe Corporate results.
- As of December 31, 2019, £14 million of pre-tax annualized expense reductions have been achieved relating to the U.K. restructuring program compared to £11 million at September 30, 2019. The Company remains on track to achieve targeted annual expense reductions of £20 million pre-tax by the end of the fourth quarter of 2020 from various sources including systems and process improvements and a reduction in headcount.
- Subsequent to December 31, 2019, on February 3, 2020, Irish Life, through its subsidiary Invesco Limited, completed the acquisition of Acumen & Trust DAC, an Irish financial services consultancy firm expanding into the areas of employee benefits consulting and individual financial advice.
- Subsequent to December 31, 2019, on February 10, 2020, Irish Life announced the sale of Irish Progressive Services International Limited, a wholly owned subsidiary whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The proposed transaction will be subject to customary closing conditions including receipt of required regulatory approvals and is expected to be completed in the second half of 2020. The Company expects to recognize a gain related to this transaction. This business did not have a material impact on the Company's net earnings for the twelve months ended December 31, 2019.
- On October 21, 2019, the Company's German business completed its acquisition of an interest in Jung DMS & Cie AG (JDC), one of the leading broker pools in Germany. While the transaction is not expected to have a material impact on the Company's financial results, it expands the Company's footprint in the German market.

- During the fourth quarter of 2019, Irish Life Investment Managers announced the conversion of their entire discretionary book of assets under management (€15 billion) to a responsible investment approach, which explicitly considers Environmental, Social and Governance (ESG) factors in the investment approach, the first investment manager in Europe to do so.
- In October 2018, the Company rebranded Retirement Advantage (the trading name of MGM Advantage Life Limited) as Canada Life and announced the intention to transfer the legal ownership of all insurance policies written by MGM Advantage Life Limited to Canada Life Limited. The Part VII transfer was approved on December 18, 2019, and the legal transfer of the Retirement Advantage business took place on January 1, 2020.
- On December 18, 2019, the Reinsurance business unit entered into a long-term longevity reinsurance agreement with an insurance company in the Netherlands. The agreement covers approximately €12 billion of pension liabilities and close to 200,000 pensioners. In exchange for ongoing premium payments, the Company will pay the actual benefit obligations incurred by the insurance company.
- During the fourth quarter of 2019, the Company received the following awards:
  - At the International Investment Awards, Canada Life International received Best International Life Group (U.K.), Best International Portfolio Bond for the Premiere Account, Best International Trust and Estate Planning for the Wealth Preservation Account and Best International Savings Plan for the Offshore Savings Account.
  - At the 2019 Irish Pensions Awards, Irish Life Investment Managers won "Investment Manager of the Year" for the fifth time in eight years, while Setanta Asset Management won "Equities Manager of the Year" for the second consecutive year. Additionally, Irish Life Investment Managers won "Property Investment/Fund Managers of the Year" at the 2019 KPMG Irish Independent Property Industry Excellence Awards.
  - Focus Money awarded the best insurer's financial strength rating to Canada Life Assurance Europe plc and best available Product Rating (FFF+) from Franke & Bornberg for the Company's German Essential ability product Premium Grundfähigkeitsschutz.

Business Units – Europe

Insurance & Annuities

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Premiums and deposits [1] [2]	**$ 7,931**	$ 7,596	$ 6,485	**$ 35,374**	$ 26,985
Sales [1] [2]	**6,566**	7,098	5,972	**31,976**	24,481
Fee and other income	**377**	382	345	**1,539**	1,467
Net earnings	**334**	306	271	**1,050**	1,036

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) For the three and twelve months ended December 31, 2019, premiums and deposits and sales exclude $0.1 billion and $0.8 billion, respectively, of assets managed for other business units within the Lifeco group of companies ($0.4 billion and $0.9 billion for the three and twelve months ended December 31, 2018 and $0.3 billion for the three months ended September 30, 2019).

Premiums and deposits

Premiums and deposits for the fourth quarter of 2019 increased by $1.4 billion to $7.9 billion compared to the same quarter last year, primarily due to higher fund management sales in Ireland, partially offset by lower pension sales in Ireland.

For the twelve months ended December 31, 2019, premiums and deposits increased by $8.4 billion to $35.4 billion compared to the same period last year, primarily due to higher fund management sales in Ireland, partially offset by lower bulk annuity sales in the U.K., lower pension sales in Ireland and the impact of currency movement.

Premiums and deposits for the fourth quarter of 2019 increased by $0.3 billion compared to the previous quarter, primarily due to an increase in fund management sales and higher pension sales in Ireland, partially offset by lower bulk annuity sales in the U.K.

Sales

Sales for the fourth quarter of 2019 increased by $0.6 billion to $6.6 billion compared to the same quarter last year, primarily due to higher fund management sales in Ireland, partially offset by lower pension sales in Ireland.

For the twelve months ended December 31, 2019, sales increased by $7.5 billion to $32.0 billion compared to the same period last year, primarily due to higher fund management sales in Ireland and higher wealth management sales in the U.K. These items were partially offset by lower bulk annuity sales in the U.K., lower retail and pension sales in Ireland and the impact of currency movement.

Sales for the fourth quarter of 2019 decreased by $0.5 billion compared to the previous quarter, primarily due to lower fund management sales in Ireland and lower bulk annuity sales in the U.K., partially offset by higher Ireland retail sales.

Fee and other income

Fee and other income for the fourth quarter of 2019 increased by $32 million to $377 million compared to the same quarter last year, primarily due to higher management fees in Ireland and Germany and higher investment related fee income in Ireland partially offset by lower management fees in the U.K. resulting from the policies sold to Scottish Friendly and the impact of currency movement.

For the twelve months ended December 31, 2019, fee and other income increased by $72 million to $1,539 million compared to the same period last year. The increase was primarily due to higher management fees in Ireland and Germany and higher investment related fee income in Ireland, partially offset by lower other income in Ireland, lower management fees in the U.K., and the impact of currency movement.

Fee and other income for fourth quarter of 2019 decreased by $5 million compared to the previous quarter, primarily due to lower management fees in the U.K., partially offset by higher management fee income in Germany.

Net earnings

Net earnings for the fourth quarter of 2019 increased by $63 million to $334 million compared to the same quarter last year. The increase was primarily due to the resolution of an outstanding issue with a foreign tax authority and higher contributions from investment experience, partially offset by adverse morbidity experience in Ireland. To address the evidence of an adverse trend in claims in Ireland, pricing action has been taken during 2019, which will take effect in 2020, and the Company will continue to monitor its progress.

Net earnings for the twelve months ended December 31, 2019 increased by $14 million to $1,050 million compared to the same period last year. The increase was primarily due to higher contributions from investment experience, which included the impact of bond and mortgage upgrades in 2019, higher realized gains on surplus assets, favourable impact of new business, favourable mortality experience in the U.K. and the impact of changes to certain tax estimates, including the resolution of an outstanding issue with a foreign tax authority. The increase was partially offset by the impact of impairment charges on mortgage loans and reductions in expected property cash flows primarily associated with a U.K. retail tenant entering a prepackaged administration, lower contributions from insurance contract liability basis changes and adverse morbidity experience in Ireland.

Net earnings for the fourth quarter of 2019 increased by $28 million compared to the previous quarter, primarily due to the resolution of an outstanding tax issue with a foreign tax authority and higher contributions from investment experience, partially offset by lower contributions from insurance contract liability basis changes.

Outlook – Insurance & Annuities

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

United Kingdom – The outlook for the retail payout annuities market in 2020 is for modest growth. Since April 2015, individuals have had greater flexibility for accessing their savings in retirement. As expected, some individuals have chosen to remain invested in the market while drawing a pension income rather than buying a payout annuity. However, the Company expects that the attractiveness of guaranteed income from annuities will remain a key part of customers' retirement planning in the future and the Company sees the opportunity to grow its payout annuity business in line with the expected growth in the overall retirement market.

The Retirement Advantage acquisition in early 2018 created a strong platform for growth in the U.K.'s growing equity release and retirement income markets. The Company will continue to develop products for individuals who require additional pension flexibility. The overall size of the retirement market continues to grow as more employers transition from defined benefit to defined contribution pension plans, with significant growth expected in equity release, pension consolidation and income drawdown. The Company will also look to further develop its presence in the bulk annuity market where trustees of defined benefit schemes want to remove longevity risk by insuring its pension liabilities near to or already in payment.

Canada Life continues to be a key player in the single premium investment bond marketplace. It will continue to develop its presence in both the international and onshore market segments. The Company's distribution strategy for onshore will remain focused on financial advisors. In the international wealth management segment, the outlook for 2020 is cautiously optimistic with an expectation that the market will continue to grow. The majority of the Company's business growth is expected to be through discretionary fund management wealth advisors, the retail market and through tax and estate planning products.

The outlook for the group risk operation remains positive and has benefited from additional risk business as a result of the U.K. Government's Pensions Auto Enrollment initiative in the workplace, which commenced in October 2012 and completed in 2018. Larger Canada Life plans have grown, as the pension legislation increased the membership of the associated group plans. The Company expects the expansion of the existing customer base experienced in recent years will moderate as employers have implemented the changes required by the legislation. The Company's group operations will continue to maintain new pricing discipline, reflecting the current low interest rate environment.

The Prudential Regulation Authority (PRA) granted approval for Canada Life to use an internally designed, Partial Internal Model (PIM) to calculate its capital requirement under the Solvency II regulatory regime with effect from December 31, 2019. This replaces the industry-standard, Standard Formula approach, and results in a more risk sensitive and appropriate Solvency II capital treatment to support the growth of the businesses going forward.

Following the acquisition of U.K. financial services provider Retirement Advantage in 2018, final court approval for the legal transfer of the insurance business into Canada Life Limited was granted in December 2019. Going forward this will deliver further synergies and savings, as well as continuing to provide an enhanced product offering to customers.

Ireland – The Irish economy continues to perform positively with expected gross domestic product (GDP) growth of 5% in 2019, and projected to trend at 3% in 2020. Economic forecasts for 2020 remain impacted by Brexit, though the reduced risk of a disorderly transition has eased concerns. Unemployment rates at 5% are the lowest since January 2007. Consumer sentiment remains cautious, but improved notably in the later months of 2019. Attitudes of Irish households towards savings and investment declined in the fourth quarter of 2019, reflecting the low interest rate environment for savings and uncertainty in the investment outlook.

Irish Life's vision is to be "Ireland's home of Health and Wealth", strengthening and expanding its position as the largest assurance company in Ireland and accelerating growth profitability across its retail, corporate, health and investment management businesses following its multi-channel distribution strategy within a competitive market. Supporting this is Irish Life's ExO Innovation Hub (ExO) with a mission to secure and further the evolution of technology and digital solutions at the heart of the organization. The collaborative and symbiotic influence of ExO in Irish Life ensures all products, digital and offline, better match actual needs and wants of the customer.

Germany – The outlook for the German business continues to be positive and the Company expects continued growth in assets under management and its share of the market during 2020. The Company is positioning itself to further strengthen its presence through continued investments in product development, distribution technology and service improvements. 2019 saw the roll-out of a new administration platform that will allow the business to support its customers more effectively and to expand the Company's share of the group pensions market.

Reinsurance

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Premiums and deposits [1]	**$ 4,456**	$ 4,098	$ 3,872	**$ 17,443**	$ 13,504
Fee and other income	**2**	2	3	**9**	13
Net earnings	**124**	55	89	**353**	377

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Premiums and deposits

Reinsurance premiums can vary significantly from period to period depending on the terms of underlying treaties. For certain life reinsurance transactions, premiums will vary based on the form of the transaction. Treaties where insurance contract liabilities are assumed on a proportionate basis will typically have significantly higher premiums than treaties where claims are not incurred by the reinsurer until a threshold is exceeded. Earnings are not directly correlated to premiums received.

Premiums and deposits for the fourth quarter of 2019 increased from $3.9 billion to $4.5 billion compared to the same quarter last year. The increase was primarily due to new reinsurance agreements and higher volumes relating to existing business.

For the twelve months ended December 31, 2019, premiums and deposits increased by $3.9 billion to $17.4 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the fourth quarter of 2019 increased by $0.4 billion compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income

Fee and other income for the fourth quarter of 2019 of $2 million was comparable to the previous quarter and the prior year.

For the twelve months ended December 31, 2019, fee and other income decreased by $4 million to $9 million compared to the same period last year, primarily due to restructured reinsurance agreements.

Net earnings

Net earnings for the fourth quarter of 2019 increased by $35 million to $124 million compared to the same quarter last year. The increase was primarily due to favourable impacts from new business, which included the initial impact of the new €12 billion long-term longevity reinsurance agreement, and higher business volumes, partially offset by lower contributions from insurance contract liability basis changes and less favourable claims experience in the life and annuity business.

For the twelve months ended December 31, 2019, net earnings decreased by $24 million to $353 million compared to the same period last year, primarily due to less favourable claims experience in the life and annuity business and lower contributions from insurance contract liability basis changes, partially offset by higher business volumes and favourable initial impacts from new business.

Net earnings for the fourth quarter of 2019 increased by $69 million compared to the previous quarter, primarily due to favourable initial impacts from new business and higher business volumes.

Outlook – Reinsurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The U.S. life reinsurance industry is focused on accessing certain demographics, including the low to middle income families market. If the industry is successful, this could create renewed growth, otherwise expected sales and volume will remain stable.

In Europe, low interest rates and the associated financial impact on reserve and capital positions under Solvency II is a key market dynamic. The Company's reinsurance business unit continues to help European clients and other affiliated companies meet these capital challenges through innovative reinsurance solutions. Demand for longevity reinsurance remains very strong and will remain a focus for 2020.

2019 was the third consecutive year of significant hurricane and typhoon events. The Company expects 2020 retrocessional pricing to continue to increase. Insurance linked securities capacity is expected to be slightly down due to trapped collateral from 2017 to 2019 events. The Company's primary focus for 2020 will be to continue to support the core client base with prudent attachment levels and risk adjusted premiums.

Europe Corporate

The Europe Corporate account includes financing charges and the impact of certain non-continuing items as well as the results for the legacy international businesses.

In the fourth quarter of 2019, Europe Corporate had a net loss of $6 million compared to a net loss of $11 million for the same period last year. Excluding the net gain on the Scottish Friendly transaction of $8 million, the adjusted net loss of $14 million was comparable to the same quarter last year.

For the twelve months ended December 31, 2019, Europe Corporate had a net loss of $13 million compared to $102 million for the same period last year. Included in the 2018 year-to-date results were $56 million of restructuring costs related to the U.K. operations. Excluding this item and the net gain on the Scottish Friendly transaction discussed for the in-quarter results, the adjusted net loss decreased by $25 million primarily due to lower strategic and business development expenses.

For the three months ended December 31, 2019, Europe Corporate had a net loss of $6 million compared to $4 million for the previous quarter. Excluding the net gain on the Scottish Friendly transaction discussed for the in-quarter results, the adjusted net loss increased by $10 million primarily to negative contributions from insurance contract liability basis changes associated with the legacy international business.

Lifeco Corporate Operating Results

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

The net loss for the three months ended December 31, 2019 was $6 million compared to a net loss of $4 million for the same period last year, primarily due to lower net investment income, partially offset by lower operating expenses.

The net loss for the twelve months ended December 31, 2019 was $21 million compared to a net loss of $13 million for the same period last year, primarily due to lower net investment income.

The net loss for the three months ended December 31, 2019 was $6 million compared to a net loss of $4 million for the previous quarter, primarily due to higher operating expenses.

Risk Management

Overview

As a diverse financial services company, the effective management of risk is integral to the success of the Company's business. The Company is committed to a comprehensive system of risk management, which is embedded across all business activities, operated through a three lines of defence organization and overseen by the Board of Directors. The Company's three lines of defence include business unit and support functions, oversight functions including the risk function and the Company's internal audit function. The Company has a prudent and measured approach to risk management. This approach is built on a strong risk culture and is guided by an integrated Enterprise Risk Management (ERM) Framework.

The Company's ERM Framework facilitates the alignment of business strategy with risk appetite, informs and improves the deployment of capital; and supports the identification, mitigation and management of exposure to possible losses and risks. The Company's Risk Function is responsible for the Risk Appetite Framework (RAF), the supporting risk policies and risk limit structure, and provides independent risk oversight across the Company's operations.

There are three main sections to this Risk Management disclosure: ERM Framework, Risk Management and Control Practices and Exposures and Sensitivities.

Enterprise Risk Management Framework

The Company's Board and Management Committees provide oversight of the ERM Framework which is comprised of five components: Risk Culture, Risk Governance, RAF, Risk Processes and Risk Infrastructure & Policies.

Risk Culture

Risk culture is defined as the system of values and behaviours which reflect the Company's collective sense of responsibility to fulfill its promises and safeguard the Company's financial strength and reputation while growing shareholder value. This culture reflects the Company's commitment to treat customers fairly and support open communication and ethical behaviour.

This culture is instilled through a mindset of risk awareness as demonstrated by:

- Consistent tone from the Board of Directors and senior management in respect of behavioural and ethical expectations;
- Recognition that risk is inherent in the Company's business success and reflects opportunity when appropriately managed;
- Common commitment throughout the Company to the importance of continuous management of risk, including clear accountability for and ownership of specific risks and risk areas;
- Rewarding positive risk taking and management behaviours while challenging and remediating those that are inappropriate;
- Encouragement of risk event reporting and the presence of robust whistleblowing processes, actively seeking to learn from mistakes; and
- Recognition that risk management skills and knowledge are valued, encouraged and developed, throughout the Company and supported by an appropriately resourced Risk Function.

Risk Governance

Risk governance sets out the roles and responsibilities for the Board of Directors (Board) and Board Committees.

Board of Directors

The mandate of the Board, which it discharges directly or through one of its Committees, is to supervise the management of the business and affairs of the Company. The Board is ultimately accountable and responsible for the governance and oversight of risk throughout the Company. The Board annually approves the strategic goals, objectives, plans and initiatives for Lifeco and in so doing reviews the risks associated with Lifeco's diverse business, strategic goals and high priority initiatives. Key risk responsibilities include:

- Approving the RAF and ERM Policy;
- Monitoring the implementation and maintenance by management of appropriate systems, policies, procedures and controls to manage the risks associated with the Company's businesses and operations;
- Annually approving Lifeco's business, financial and capital plans and monitoring the implementation by management thereof;
- Upon the recommendation of the Risk Committee, adopting a Code of Conduct applicable to Directors, officers and employees of the Company; and
- Periodically approving policies designed to support independence of the Internal Audit, Risk, Finance, Actuarial and Compliance oversight functions.

Risk Committee

The Risk Committee of the Board of Directors is responsible for assisting the Board with risk management oversight and governance throughout the Company. The Risk Committee's responsibilities include:

- Review and oversight of the ERM Policy and RAF;
- Review, approval and oversight of the credit, market, insurance, operational, conduct, strategic and other risk policies;
- Approval of the risk limit framework, associated risk limits and monitoring adherence to those limits;
- Approval of the organizational structure and resources of the risk management and compliance functions;
- Evaluation of the Company's risk culture;
- Discussion of the risks in aggregate and by type of risk;
- Review relevant reports including stress testing and financial condition testing;
- Review and approval of the Own Risk and Solvency Assessment (ORSA) Report;
- Periodically approve the recovery plan playbook;
- Review of the risk impact of business strategies, capital plans, financial plans and the new business initiatives;
- Review and assessment of the performance of the Company's Chief Risk Officer (CRO) and Chief Compliance Officer (CCO);
- Monitoring compliance with the Company's Code of Conduct;
- Periodic consideration and input regarding the relationships between risk and compensation; and
- Review and assessment of the effectiveness of risk management across the Company including processes to ensure effective identification, measurement, management, monitoring and reporting on significant current and emerging risks.

The Risk Committee is required to meet, at least annually, with the Audit Committee and with the Company's Chief Internal Auditor. Members of the Risk Committee are independent of management.

Audit Committee – The primary mandate of the Audit Committee is to review the financial statements of the Company and public disclosure documents containing financial information and to report on such review to the Board, to be satisfied that adequate procedures are in place for the review of the Company's public disclosure documents that contain financial information and to oversee the work and review the independence of the external auditor. The Audit Committee is also responsible for reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. The Audit Committee is required to meet, at least annually, with the Risk Committee.

Conduct Review Committee – The primary mandate of the Conduct Review Committee is to require management to establish satisfactory procedures for the consideration and approval of transactions with related parties and to review and, if deemed appropriate, to approve related party transactions in accordance with such procedures.

Governance and Nominating Committee – The primary mandate of the Governance and Nominating Committee is to oversee the Company's approach to governance matters, to recommend to the Board effective corporate governance policies and processes, to assess the effectiveness of the Board, Board Committees and the Directors and to recommend to the Board candidates for election as Directors and candidates for appointment to Board Committees.

Human Resources Committee – The primary mandate of the Human Resources Committee is to support the Board in its oversight of compensation, talent management and succession planning. This includes the responsibility to approve compensation policies, to review the designs of major compensation programs, to approve compensation arrangements and any benefit or perquisite plan for senior executives of the Company and to recommend to the Board compensation arrangements for the Directors and for the President and Chief Executive Officer. The mandate also includes the responsibility to review succession plans for the President and Chief Executive Officer and other senior executives, to review talent management programs and initiatives and to review the leadership capabilities required to support the advancement of the Company's strategic objectives. The Human Resources Committee is also responsible for considering the implications of the risks associated with the Company's compensation policies, plans and practices and in doing so meets annually with the Chief Risk Officer. The Human Resources Committee also meets with the Risk Committee on an as needed basis.

Investment Committee – The primary mandate of the Investment Committee is to oversee the Company's global investment strategy and activities, including approving the Company's Investment Policy and monitoring the Company's compliance with the Investment Policy. The mandate also includes reviewing the Company's annual investment plan and monitoring emerging risks, market trends and performance, investment regulatory issues and any other matters relevant to the oversight of the Company's global investment function.

Senior Management Risk Committees

The Executive Risk Management Committee (ERMC) is the primary senior management committee that oversees all forms of risk and the implementation of the ERM Framework. The members are the CEO, the heads of each major Business Segment, the heads of key oversight functions and heads of support functions as appropriate. The Board Risk Committee delegates authority for the approval and management of lower level risk limits to the ERMC. The Company's CRO leads the Risk Function and chairs the ERMC. Its responsibilities include reviewing compliance with the RAF, risk policies and risk standards. It also assesses the risk impact of business strategies, capital and financial plans, and material initiatives. The following three enterprise-wide sub-committees, chaired by the Risk Function, report to the ERMC to provide advice and recommendations on each of the key risk categories:

- Market and Credit Risk Committee
- Insurance Risk Committee
- Operational Risk Committee

The oversight responsibilities of the above committees include identification, measurement, management, monitoring and reporting of their respective risks.

Accountabilities

The Company has adopted a Three Lines of Defence model to clearly segregate risk management and risk oversight responsibilities and applies the ERM Framework rigorously across the enterprise:

- **First Line:** Business units and business support functions, including Investment Management, Human Resources, Information Services and Legal, are the ultimate owners of the risk and have primary risk management as well as risk-taking responsibility and accountability through day-to-day operations within ongoing business process;
- **Second Line:** The Risk Function has the primary and overall responsibility and accountability for independent oversight of risk-taking and risk management of the first line of defence. In this role, the Risk Function receives support from other oversight functions including Actuarial, Compliance and Finance; and
- **Third Line:** Internal Audit is responsible for independent assurance of the adequacy of the design and operational effectiveness of the Company's ERM Framework.

The Company's CRO reports directly, both to the President and Chief Executive Officer and to the Board Risk Committee. The CRO is responsible for ensuring that the Risk Function is appropriately resourced and effective in executing its responsibilities. The accountabilities of the CRO include reporting on compliance with the ERM Policy and RAF as well as for escalating matters that require attention.

Regional ERMCs monitor all risk categories for businesses and operations within their respective business segments. Risk resources and capabilities are aligned with the Company's business segments and operating units. Further support is provided by centrally based risk areas of expertise.

Although the Company takes steps to anticipate and minimize risks in general, no risk management framework can guarantee that all risks will be identified, appreciated or mitigated effectively. Unforeseen future events may have a negative impact on the Company's business, financial condition and results of operations.

Risk Appetite Framework

The Company has an articulated Risk Appetite Framework (RAF) that includes the following elements along with the associated governance structure:

- **Risk Strategy:** Risk philosophy of the Company that links to the business strategy
- **Risk Appetite Statement:** Qualitative reflection of the aggregate level of risk and types of risk that the Company is willing to accept to achieve its business objective
- **Risk Preference:** Qualitative description of risk tolerances
- **Risk Limit Framework:** Quantitative components of the RAF including breach and escalation process

Risk Strategy

The Company's business strategy is aligned with its risk strategy and risk appetite. The risk strategy supports the Company's main objectives to keep its commitments while growing shareholder value. The risk strategy requires:

- diversification of products and services, customers, distribution channels and geographies;
- a prudent and measured approach to risk-taking,
- resilience of business operations and sustainable growth,
- conducting business to safeguard the Company's reputation and deliver fair customer outcomes through maintaining high standards of integrity based on the Code of Conduct and sound sales and marketing practices, and
- generating returns to grow shareholder value through profitable and growing operations while maintaining a strong balance sheet.

Risk Appetite Statement

The Company's Risk Appetite Statement has four key components:

- **Strong Capital Position:** The Company intends to maintain a strong balance sheet and not take risks that would jeopardize its financial strength;
- **Mitigated Earnings Volatility:** The Company seeks to avoid substantial earnings volatility through appropriate diversification and limiting exposure to more volatile lines of business;
- **Strong Liquidity:** The Company intends to maintain a high quality, diversified investment portfolio with sufficient liquidity to meet the demands of policyholder and financing obligations under normal and stressed conditions; and
- **Treating Customers Fairly and Maintaining the Company's Reputation:** The Company considers, across all business activities and operations, the potential impact on its reputation. This includes building and maintaining trust with the Company's customers and other stakeholders.

Risk Preference

The Company has established qualitative risk preferences for each risk type. Each risk is assigned a risk preference level, in the context of understanding and managing these risk. The current level of exposure is regularly measured and risk tolerances are expressed quantitatively through actual constraints to the Company's risk profile within pre-agreed limits. Maximum guidelines are established to monitor risk concentration and inform the risk limit setting process.

Risk Limit Framework

A comprehensive structure of risk limits and controls is in place across the Company. Enterprise risk limits are further broken down by business unit and risk type. The limit structure is accompanied by comprehensive limit approval and breach management processes to ensure effective governance and oversight of the RAF.

The Company and its subsidiaries are subject to various regulatory regimes. The capital requirements under these regulatory capital regimes are reflected in the development of risk limits. Business units are responsible for operating within the risk appetite and the risk limit framework and satisfying local needs as required.

Risk Processes

Risk processes follow a cycle of identification, measurement, management, monitoring and reporting and are designed to ensure both current and emerging risks are assessed against the RAF.

Risk Identification, Measurement and Management

Risk identification requires the structured analysis of the current and emerging risks facing the Company, so that they are understood and appropriately controlled. Processes are designed to ensure risks are considered, assessed, prioritized and addressed in all business initiatives and changes, including investment strategies, product design, significant transactions, annual planning and budgeting as well as potential business acquisitions and disposals.

Risk measurement provides the means to quantify and assess the Company's risk profile and monitor the profile against the risk limits. Any material new business development or change in strategy warrants an independent assessment of risk and potential impact on reputation, in addition to measurement of the impact on capital, earnings and liquidity. Stress and scenario testing is used to evaluate risk exposures against the risk appetite. Sensitivity testing of key risks is used to evaluate the impact of risk exposures independent of other risks. Scenario testing is used to evaluate the combined impact of multiple risk exposures.

The Company has processes in place to identify risk exposures on an ongoing basis and, where appropriate, develops mitigation strategies to proactively manage these risks. Effective risk management requires the selection and implementation of approaches to accept, reject, transfer, avoid or control risk, including mitigation plans. It is based on a control framework that includes risk limits, Key Risk Indicators (KRIs) and stress and scenario testing to ensure appropriate escalation and resolution of potential issues in a timely manner.

A key responsibility of the Risk Function is to ensure that the risk appetite is applied consistently across the Company and that limits are established to ensure that risk exposures comply with the risk appetite and Company-wide risk policies.

Risk Monitoring, Reporting and Escalation

Risk monitoring relates to ongoing oversight and tracking of the Company's risk exposures, ensuring that the risk management approaches in place remain effective. Monitoring may also identify risk-taking opportunities.

Risk reporting presents an accurate and timely picture of existing and emerging risk issues and exposures as well as their potential impact on business activities. Reporting highlights the risk profile relative to the risk appetite and associated risk limits.

A clearly defined escalation protocol has been established in respect of breaches of the RAF, risk policies, operating standards and guidelines. Remediation plans are reviewed by the Risk Function and escalated to designated management and Board committees.

Risk Infrastructure and Policies

The Company's organization and infrastructure is established to provide resources and risk systems to support adequate and appropriate risk policies, operating standards and guidelines and processes. The Company takes a consistent approach to risk management is taken across key risk types.

The Company has codified its procedures and operations related to risk management and oversight requirements in a set of guiding documents composed of risk policies, operating standards and associated guidelines. This comprehensive documentation framework provides detailed and effective guidance across all risk management processes. These documents enable a consistent approach to risk management and oversight across the Company's businesses and are reviewed and approved regularly, in accordance with an established authority hierarchy, by the Board of Directors, the Board Risk Committee or a senior management committee. Similar policy structures have been developed and are maintained by each region.

Risk Management and Control Practices

The Company's risk profile is impacted by a variety of risks and its risk management and independent oversight processes are tailored to the type, volatility and magnitude of each risk. The Company has defined specific risk management and oversight processes for risks, broadly grouped in the following categories:

1. Market and Liquidity Risk
2. Credit Risk
3. Insurance Risk
4. Operational Risk
5. Conduct Risk
6. Strategic Risk

Market and Liquidity Risk

Risk Description

Market risk is the risk of loss resulting from potential changes in market rates, prices or liquidity in various markets such as for interest rates, real estate, currency, common shares and commodities. Exposure to this risk results from business activities including investment transactions which create on-balance sheet and off-balance sheet positions.

Liquidity risk is the risk of the Company's inability to generate the necessary funds to meet its obligations as they come due, including off-balance sheet commitments and obligations.

Market and Liquidity Risk Management

The Company's Market Risk Policy sets out the market risk management framework and provides the principles for market risk management. This policy is supported by other policies and guidelines that provide detailed guidance.

A governance structure has been implemented for the management of market risk. The business units, including Investment Management, are the ultimate owners of market risk and as such have primary responsibility for the identification, measurement, management, monitoring and reporting of market risk. The Company has established a senior management committee to provide oversight of market risk, which includes completing reviews and making recommendations regarding risk limits, the risk policy and associated compliance, breach management and mitigation pertaining to market risk. Each region has established oversight committees and operating committees to help manage market risk within the region. The Company has developed risk limits, KRIs and measures to support the management of market and liquidity risk in compliance with the Company's RAF. The Risk Function works with the business units and other oversight functions to identify current and emerging market risks and take appropriate action, if required.

The Company is willing to accept market risk and liquidity risk in certain circumstances as a consequence of its business model and seeks to mitigate the risk wherever practical. To reduce market risk, the Company uses a dynamic hedging program associated with segregated fund and variable annuity guarantees. This is supplemented by a general macro equity hedging program.

Risks and risk management activities associated with the broad market and liquidity risk categories are detailed below.

Interest Rate Risk

Interest rate risk is the risk of loss resulting from the effect of the volatility and uncertainty of future interest rates on asset cash flows relative to liability cash flows and on assets backing surplus. This also includes changes in the amount and timing of cash flows related to asset and liability optionality, including interest rate guarantees and book value surrender benefits in the liabilities.

The Company's principal exposure to interest rate risk arises from certain general fund and segregated fund products. The Company's Asset Liability Management (ALM) strategy has been designed to mitigate interest rate risks associated with general fund products, with close matching of asset cash flows and insurance and investment contract obligations. Products with similar risk characteristics are grouped together to ensure an effective aggregation and management of the Company's ALM positions. Asset portfolios supporting insurance and investment contract liabilities are segmented to align with the duration and other characteristics (e.g. liquidity) of the associated liabilities.

A prolonged period of low interest rates may adversely impact the Company's earnings and regulatory capital and could impact the Company's business strategy. During periods of prolonged low interest rates, investment earnings may be lower because the interest earned on new fixed income investments will likely have declined with the market interest rates, and hedging costs may increase. Also, early repayment on investments held such as mortgage-backed securities, asset-backed securities, and callable bonds, may be experienced and proceeds forced to be reinvested at lower yields, which will reduce investment margins.

Crediting rates within general fund products are set prudently and a significant proportion of the Company's portfolio of crediting rate products includes pass-through features, which allow for the risk and returns to be shared with policyholders. Asset management and related products permit redemptions; however, the Company attempts to mitigate this risk by establishing long-term customer relationships, built on a strategic customer focus and an emphasis on delivering strong fund performance.

The Company has established dynamic hedging programs to hedge interest rate risk sensitivity associated with segregated fund and variable annuity guarantees. These hedging programs are designed to offset changes in the economic value of liabilities using derivative instruments. The Company's approach to dynamic hedging of interest rate risk principally involves transacting in interest rate swaps. The hedge asset portfolios are dynamically rebalanced within approved thresholds and rebalancing criteria.

Where the Company's insurance and investment products have benefit or expense payments that are dependent on inflation (e.g. inflation-indexed annuities, pensions and disability claims), the Company generally invests in real return instruments to mitigate changes in the real dollar liability cash flows. Some protection against changes in the inflation index can be achieved, as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.

Equity Risk

Equity risk is the risk of loss resulting from the sensitivity of the value of assets, liabilities, financial instruments and fee revenue to changes in the level or in the volatility of market prices of common shares and real estate. This includes the equity risk associated with the Company's general fund assets and investments on account of segregated fund policyholders.

The Company's principal exposure to equity risk arises from segregated funds and fee income associated with the Company's assets under management. Approved investment and risk policies also provide for general fund investments in equity markets within defined limits.

The Company has established dynamic hedging programs to hedge equity risk sensitivity associated with segregated fund and variable annuity guarantees. The hedging programs are designed to mitigate exposure to changes in the economic value of these liabilities using derivative instruments. The Company's approach to dynamic hedging of equity risk principally involves the short selling of equity index futures. The hedge asset portfolios are dynamically rebalanced within approved thresholds and rebalancing criteria. The Company's product-level hedging programs are supplemented by a general macro hedging strategy.

For certain very long-dated liabilities it is not practical or efficient to closely match liability cash flows with fixed-income investments. Therefore, certain long-dated asset portfolios target an investment return sufficient to meet liability cash flows over the longer term. These liabilities are partially backed by a diversified portfolio of non-fixed income investments, including equity and real estate investments, in addition to long dated fixed-income instruments. Real estate losses can arise from fluctuations in the value of or future cash flows from the Company's investments in real estate.

The Company has established a macro equity hedging program. The objective of the program is to reduce the Company's exposure to equity tail-risk and to maintain overall capital sensitivity to equity market movements within Board approved risk appetite limits. The program is designed to hedge a portion of the Company's capital sensitivity due to movements in equity markets arising from sources outside of dynamically hedged segregated fund and variable annuity exposures.

Foreign Exchange Risk

Foreign exchange risk is the risk of loss resulting from changes in currency exchange rates against the reporting currency. The Company's foreign exchange investment and risk management policies and practices are to match the currency of the Company's general fund investments with the currency of the underlying insurance and investment contract liabilities. To enhance portfolio diversification and improve asset liability matching, the Company may use foreign exchange derivatives to mitigate currency exchange risk to the extent this is practical using forward contracts and swaps.

The Company has net investments in foreign operations. As a result, the Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations due to the movement of the Canadian dollar against these currencies. Such fluctuations affect the Company's financial results. The Company has exposures to the U.S. dollar resulting from the operations of Great-West Financial and Putnam in the United States segment and the Reinsurance business unit within the Europe segment; and to the British pound and the euro resulting from operations of business units within the Europe segment operating in the U.K., the Isle of Man, Ireland and Germany.

In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income (loss). Strengthening or weakening of the Canadian dollar end-of-period market rate compared to the U.S. dollar, British pound and euro end-of-period market rates impacts the Company's total share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

- A 5% appreciation (depreciation) of the average exchange rate of the Canadian dollar to each of the British pound, euro and U.S. dollar would increase (decrease) net earnings in 2019 by $41 million, $26 million and $3 million, respectively.
- A 5% appreciation (depreciation) of the Canadian dollar end-of-period market rate compared to each of the U.S. dollar, British pound and euro end-of-period market rates would decrease (increase) the unrealized foreign currency translation gains, including the impact of instruments designated as hedges of net investments on foreign operations, in accumulated other comprehensive income (loss) of shareholders' equity by approximately $311 million, $324 million and $135 million, respectively, as at December 31, 2019.

Management may use forward foreign currency contracts and foreign denominated debt to mitigate the volatility arising from the movement of rates as they impact the translation of net investments in foreign operations. The Company uses non-IFRS financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation on financial results.

Liquidity Risk

The Company's liquidity risk management framework and associated limits are designed to ensure that the Company can meet cash and collateral commitments as they fall due, both on an expected basis and under a severe liquidity stress.

In the normal course of certain reinsurance business, the Company provides letters of credit (LCs) to other parties, or beneficiaries. A beneficiary will typically hold a LC as collateral to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from the Company.

The Company may be required to seek collateral alternatives if it is unable to renew existing LCs at maturity. The Company monitors its use of LCs on a regular basis and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LCs issued to the LC beneficiaries for certain reinsurance treaties. The Company staggers the maturities of LCs to reduce the renewal risk.

Liquidity

	December 31	
	2019	2018
Cash, cash equivalents and short-term bonds	**$ 8,852**	$ 7,795
Other liquid assets and marketable securities		
Government bonds	**30,865**	33,443
Corporate bonds	**41,792**	46,378
Common/Preferred shares (public)	**9,766**	8,873
Residential mortgages – insured	**4,141**	4,530
	$ 86,564	$ 93,224
Total	**$ 95,416**	$101,019

Cashable liability characteristics

	December 31	
	2019	2018
Surrenderable insurance and investment contract liabilities [1]		
At market value	**$ 21,606**	$ 21,202
At book value	**44,829**	54,798
Total	**$ 66,435**	$ 76,000

(1) Cashable liabilities include insurance and investment contract liabilities classified as held for sale.

The carrying value of the Company's liquid assets and marketable securities is approximately $95.4 billion or 1.4 times the Company's surrenderable insurance and investment contract liabilities. The Company believes that it holds adequate and appropriate liquid assets to meet anticipated cash flow requirements as well as to meet cash flow needs under a severe liquidity stress.

Approximately 57% (approximately 53% in 2018) of insurance and investment contract liabilities are non-cashable prior to maturity or claim, with a further 14% approximately (13% in 2018) of insurance and investment contract liabilities subject to fair value adjustments under certain conditions.

The majority of liquid assets and other marketable securities comprise fixed-income securities whose value is inversely related to interest rates. Consequently, a significant rise in prevailing interest rates would result in a decrease in the value of this pool of liquid assets. Also, a high interest rate environment may encourage holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

For a further description of the Company's financial instrument risk management policies, refer to note 9 in the Company's December 31, 2019 consolidated financial statements.

Credit Risk

Risk Description

Credit risk is the risk of loss resulting from an obligor's potential inability or unwillingness to fully meet its contractual obligations. Exposure to this risk occurs any time funds are extended, committed or invested through actual or implied contractual agreements. Components of credit risk include: loan loss/principal risk, pre-settlement/replacement risk and settlement risk. Obligors include issuers, debtors, borrowers, brokers, policyholders, reinsurers, derivative counterparties and guarantors.

Credit exposure resulting from the purchase of fixed-income securities, which are primarily used to support policyholder liabilities, is a core business risk that is appropriately factored into the Company's risk appetite. The Company also manages financial contracts with counterparties. Such contracts may be used to mitigate insurance and market risks (reinsurance ceded agreements and derivative contracts) or they may arise from the Company's direct business operations (Reinsurance business unit) and may result in counterparty risk. The risk arising from these types of arrangements is included in the Company's measurement of its risk profile.

Credit Risk Management

The Company's credit risk management framework focuses on minimizing undue concentration to issuers, connected companies, industries or individual geographies by emphasizing diversification. Diversification is achieved through the establishment of appropriate concentration limits and transaction approval authority protocols. The Company's approach to credit risk management includes the continuous review of its existing risk profile relative to the RAF as well as to the projection of potential changes in the risk profile under stress scenarios.

Effective governance of credit risk management requires the involvement of dedicated senior management committees, experienced credit risk personnel, and with the guidance of appropriate credit risk policies, standards and processes. For credit risk, the Investment Committee is responsible for the approval of investment decisions of significant size or level of complexity, and oversight of the Company's global investment strategy, including compliance with investment limits and policies as well as breach management. Additionally, the Investment Committee reviews the Company's investment policies, procedures, guidelines, and corresponding limits to ensure that investment decisions are in compliance with the Company's RAF. The Risk Committee advises the Board of Directors on credit risk oversight matters and approves and monitors compliance with credit risk policies and limits. The Risk Committee also provides oversight of the Credit Risk Policy and related processes and is responsible for ensuring compliance with the Company's RAF.

The Investment Committee and Risk Committee are supported by senior management committees. The Global Management Investment Review Committee (GMIRC) and the Management Investment Review Committees (MIRCs) for each regional business segment review and approve new investments above the transaction approval authority delegated to management and manage credit risk across invested assets and counterparties. The Market and Credit Risk Committee (MCRC), is the ERMC sub-committee responsible for providing global oversight of market and credit risk management activities, including credit risk limit approval and breach of management processes, and market and credit risk policy compliance.

The Company has established business-segment specific Investment and Lending Policies, including investment limits for each asset class, which are approved by the Investment Committee. These policies and limits are complemented by the Credit Risk Policy which describes credit risk management processes and describes the role of the Risk Function in the oversight of credit risk, including the setting and monitoring of aggregate concentration risk limits, and the approval and escalation of exceptions.

The Company identifies credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness based on a thorough and objective analysis of business risk, financial profile, structural considerations and security characteristics including seniority and covenants. Credit risk ratings are expressed using a 22-point scale that is consistent with those used by external rating agencies. In accordance with the Company's policies, internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies. The Risk Function reviews and approves the credit risk ratings assigned by Investment Management for all new investments and reviews the appropriateness of ratings assigned to outstanding exposures.

The Risk Function assigns credit risk parameters (probabilities of default, rating transition rates, loss given default, exposures at default) to all credit exposures to measure the Company's aggregate credit risk profile. In addition, the Risk Function establishes limits and processes, performs stress and scenario testing (using stochastically generated and deterministic scenarios) and assesses compliance with the limits established in the RAF. It regularly reports on the Company's credit risk profile to executive management, the Board of Directors and various committees at enterprise, regional and legal entity levels.

Investment Management and the Risk Function are independently responsible for the monitoring of exposures relative to limits as well as for the management and escalation of risk limit breaches as they occur. The Investment Management Function is also responsible for the continuous monitoring of its portfolios for changes in credit outlook, and performs regular credit reviews of all relevant obligors and counterparties, based on a combination of bottom-up credit analysis and top-down views on the economy and assessment of industry and sub-sector outlooks. Watch Lists are also used at the regional business segment levels to plan and execute the relevant risk mitigation strategies.

The Risk Function oversees monitoring, breach management and escalation activities, and has developed risk limits, KRIs and risk budgets to act as early warnings against unacceptable levels of concentration and to support the management of credit risk limits in compliance with the Company's RAF.

Counterparty Risk

Counterparties include both reinsurers and derivative counterparties.

The Company uses reinsurance to mitigate insurance risks. This mitigation results in increased credit risk to reinsurance counterparties from the potential failure to collect reinsurance recoveries due to either the inability, or an unwillingness to fulfill their contractual obligation.

Counterparties providing reinsurance to the Company are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in the Reinsurance Risk Management Policy. The Company seeks to minimize reinsurance credit risk by setting rating-based limits on net ceded exposure by counterparty as well as seeking protection in the form of collateral or funds withheld arrangements where possible.

The Company enters into derivative contracts primarily to mitigate market risks. Derivative counterparty risk is the risk of loss resulting from the potential failure of the derivative counterparty to meet their financial obligations under the contract. Derivative products are traded through exchanges or with counterparties approved by the Board of Directors or the Investment Committee.

The Company seeks to mitigate derivative credit risk by setting rating-based counterparty limits in its investment policies and through collateral arrangements where possible. In addition, the Company includes potential future exposure of derivatives in its measure of total exposure against single name limits.

Insurance Risk

Risk Description

Insurance risk is the risk of loss resulting from adverse changes in experience associated with contractual promises and obligations arising from insurance contracts. Insurance risk includes uncertainties around the ultimate amount of net cash flows (premiums, commissions, claims, payouts and related settlement expenses), the timing of the receipt and payment of these cash flows, as well as the impact of policyholder behaviour (e.g. lapses).

The Company identifies six broad categories of insurance risk, which may contribute to financial losses: mortality risk, morbidity risk, longevity risk, lapse risk, expense risk and property catastrophe risk. Mortality risk, morbidity risk and longevity risk are core business risks and the exchange of these risks into value is a core business activity. Lapse risk and expense risk associated with offering core products are accepted as a consequence of the business model and mitigated where appropriate. Property catastrophe risk is a selectively accepted business risk which is constrained, actively managed and controlled within risk limits.

Insurance Risk Management

Insurance products involve commitments by the insurer to provide services and financial obligations with coverage for extended periods of time. To provide insurance protection effectively, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing insurance contract liabilities, to make assumptions regarding expected levels of income, claims and expenses and how policyholder behaviours and market risks might impact these assumptions. As a result, the Company is exposed to product design and pricing risk which is the risk of financial loss resulting from transacting business where the costs and liabilities arising in respect of a product line exceed the pricing expectations.

Insurance contract liabilities are established to fund future claims and include a provision for adverse deviation, set in accordance with professional actuarial standards. Insurance contract liability valuation requires regular updating of assumptions to reflect emerging experience.

A governance structure has been implemented for the management of insurance risk. Business units are the ultimate owners of insurance risk and as such have primary responsibility for the identification, measurement, management, monitoring and reporting of insurance risk. The Risk function, supported by Corporate Actuarial, is primarily responsible for oversight of the insurance risk management framework. The Company has established an Insurance Risk Committee to provide oversight of insurance risk, which includes completing reviews and making recommendations regarding risk limits, the risk policy and associated compliance, breach management and mitigation pertaining to insurance risk. Each region has established oversight committees and operating committees to help manage insurance risk within the region.

The Company's Insurance Risk Policy sets out the insurance risk management framework and provides the principles for insurance risk management. This policy is supported by several other policies and guidelines that provide detailed guidance, including:

- Product Design and Pricing Risk Management Policy and Reinsurance Risk Management Policy, which provide guidelines and standards for the product design and pricing risk management processes and reinsurance ceded risk management practices;
- Corporate Actuarial Valuation Policy, which provides documentation and control standards consistent with the valuation standards of the Canadian Institute of Actuaries; and
- Participating Account Management Policies and Participating Policyholder Dividend Policies, which govern the management of participating accounts and provide for the distribution of a portion of the earnings in the participating account as participating policyholder dividends.

The Risk Function, in conjunction with Corporate Actuarial, implements a number of processes to carry out its responsibility for oversight of insurance risk. It reviews the Insurance Risk Policy relative to current risk exposures and updates it as required. It reviews insurance risk management processes carried out by the business units, including product design and pricing, underwriting, claims adjudication, and reinsurance ceding, and provides challenge as required.

The Risk Function works with the business units and other oversight functions to identify current and emerging insurance risks and take appropriate action, if required. Insurance risk limits, risk budgets and KRIs are set to keep the insurance risk profile within the Company's appetite for insurance risk and the Risk Function regularly monitors the insurance risk profile relative to these measures. Any breaches are required to be escalated so that appropriate remediation may be implemented. The Risk Function performs stress testing and does analysis of insurance risks, including review of experience studies. It provides regular reporting on these activities to the business units, senior management, and risk oversight committees.

Risks and risk management activities associated with the broad insurance risk categories are detailed below.

Mortality and Morbidity Risk

Mortality risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance contract liabilities.

Morbidity risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of disability, health, dental, critical illness and other sickness rates, where an increase in the incidence rate or a decrease in the disability recovery rate leads to an increase in the value of insurance contract liabilities.

There is a risk that the Company will mis-estimate the level of mortality or morbidity, or accept customers who generate worse mortality and morbidity experience than expected.

The Company employs the following practices to manage its mortality and morbidity risk:

- Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance risks in markets where the Company is active.
- Underwriting limits, practices and policies control the amount of risk exposure, the selection of risks insured for consistency with claims expectations and support the long-term sustainability of the Company.
- The insurance contract liabilities established to fund future claims include a provision for adverse deviation, set in accordance with professional standards. This margin is required to provide for the possibilities of mis-estimation of the best estimate and/or future deterioration in the best estimate assumptions.
- The Company sets retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk where appropriate.
- For Group life products, exposure to a concentrated mortality event due to concentration of risk in specific locations for example, could have an impact on financial results. To manage the risk, concentrations are monitored for new business and renewals. The Company may impose single-event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.
- Effective plan design and claims adjudication practices, for both morbidity and mortality risks are critical to the management of the risk. As an example, for Group healthcare products, inflation and utilization will influence the level of claims costs, which can be difficult to predict. The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees and include the ability to regularly re-price for emerging experience.
- The Company manages large blocks of business, which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period. For some policies, these risks are shared with the policyholder through adjustments to future policyholder charges or in the case of participating policies through future changes in policyholder dividends.

Longevity Risk

Longevity risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance contract liabilities. Annuities, some segregated fund products with Guaranteed Minimum Withdrawal Benefits and longevity reinsurance are priced and valued to reflect the life expectancy of the annuitant. There is a risk that annuitants could live longer than was estimated by the Company, which would increase the value of the associated insurance contract liabilities.

Business is priced using mortality assumptions which consider recent Company and industry experience and the latest research on expected future trends in mortality.

Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk as appropriate. The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to ensure annuity payments accrue to those contractually entitled to receive them and help ensure mortality data used to develop pricing and valuation assumptions is as complete as possible.

Lapse Risk

Lapse risk is the risk of loss resulting from adverse changes in the level or volatility of the rates of policy lapses, terminations, renewals and/or surrenders.

Many products are priced and valued to reflect the expected duration of contracts. There is a risk that the contract may be terminated before expenses can be recovered, to the extent that higher costs are incurred in early contract years. Risk also exists where the contract is terminated later than assumed, on certain long-term level premium products where costs increase by age.

Business is priced using policy termination assumptions which consider product designs and policyholder options, recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for new policies as necessary.

The Company also incorporates early surrender charges into certain contracts and incorporates commission chargebacks in its distribution agreements to reduce unrecovered expenses.

Policyholder taxation rules in many jurisdictions help encourage the retention of insurance coverage.

Expense Risk

Expense risk is the risk of loss resulting from adverse variability of expenses incurred with fee-for-service business or in servicing and maintaining insurance, savings or reinsurance contracts, including direct expenses and allocations of overhead costs.

Expense management programs are regularly monitored to control unit costs while maintaining effective service delivery.

Property Catastrophe Risk

Property catastrophe risk is the risk of loss resulting from adverse changes in property damage experience and is mainly related to extreme or catastrophic events.

The reinsurance business in particular has exposure to extreme or catastrophic events that result in property damage. As a retrocessionaire for property catastrophe risk, the Company generally participates at more remote event-loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim. The Company limits the total maximum claim amount under all property catastrophe contracts. The Company monitors cedant companies' claims experience and research from third party expert risk models on an ongoing basis and incorporates this information in pricing models to ensure that the premium is adequate for the risk undertaken.

Operational Risk

Risk Description

Operational Risk is the risk of loss arising from potential problems relating to internal processes, people and systems or from external events. Operational risk can result from either normal day-to-day operations or a specific unanticipated event. Operational risks include legal and regulatory, human resources, infrastructure, technology and cyber, business continuity, process, change, fraud and supplier risks. In addition to operational risks, the Company also manages reputational risk, which can emerge across many businesses and risk types; therefore, reputational considerations are incorporated within each aspect of the Company's business and risk management practices.

Operational Risk Management

While operational risks can be mitigated and managed, they remain an inherent feature of the business model, as multiple processes, systems, and stakeholders are required to interact across the enterprise on an ongoing basis. The Company actively manages operational risk across the enterprise to maintain a strong reputation, standing and financial strength and to protect customers and the Company's value. Ongoing engagement of businesses and support functions across the enterprise through robust training and communications is regularly undertaken for identifying, assessing and mitigating operational risk issues.

Operational risk management governance and oversight reflects a combined effort between business units and oversight functions. The Risk Function is responsible for the development of operational risk management policies and operating standards as well as overseeing operational risk management activities performed in the first line of defence. The Operational Risk Committee has the primary mandate to provide risk oversight for operational risk across the enterprise. In addition, each regional business segment has established committees to oversee operational risk management within their business.

The Company has an Operational Risk Policy that is supported by standards and guidelines that relate to specialized functions including detailed practices related to stress testing, modeling, fraud, regulatory compliance, information technology risk management and risk data aggregation & risk reporting. The Company implements controls to manage operational risk through integrated policies, procedures, processes and practices, with consideration given to the cost/benefit trade-off. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's Internal Audit department. Financial reporting processes and controls are further examined by external auditors.

The Company also manages operational risks through the corporate insurance program which mitigates a portion of the operational risk exposure by purchasing insurance coverage that provides protection against unexpected material losses resulting from events such as property loss or damage and liability exposures. The nature and amount of insurance protection purchased is assessed with regard to the Company's risk profile, risk appetite and tolerance for the associated risks, as well as legal requirements and contractual obligations.

The Company employs a combination of operational risk management methods including risk and control assessments, internal control factors and risk events analyses. For the identification of operational risks, the Company utilizes risk and control assessments which systematically identify and assess potential operational risks and associated controls. Internal and external operational risk events are analyzed to identify root causes and provide insights into potential new operational risks that could impact the Company. In addition, scenario analysis is employed to identify and quantify potential severe operational risk exposures, while KRIs, risk appetite preferences, and other processes are leveraged to measure, manage and monitor operational risks.

The Risk Function monitors the status of actions being undertaken to remediate risks to ensure that risk exposures are mitigated in a timely manner. Processes are in place to escalate significant matters to senior management to inform and enable management to take appropriate action when needed. The Risk Function regularly reports on the Company's operational risk profile to executive management, the Board of Directors and various committees at enterprise, regional and legal entity levels.

Key operational risks and the Company's approach to managing them are outlined below.

Legal and Regulatory Risk

Legal and regulatory risk is the risk of loss resulting from non-compliance with specific local or international rules, laws, and regulations, prescribed practices, or ethical standards as well as civil or criminal litigation involving the Company. As a multi-national company, the Company and certain of its subsidiaries are subject to extensive legal and regulatory requirements in Canada, the U.S., the U.K., Ireland, Germany and other jurisdictions. These requirements cover most aspects of the Company's operations including capital adequacy, privacy, liquidity and solvency, investments, the sale and marketing of insurance and wealth products, the business conduct of insurers, asset managers and investment advisors as well as reinsurance processes. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements could have a material adverse effect on the Company. An increase in the pace of regulatory change could lead to increased operational costs to implement changes and ensure ongoing compliance.

Legal and regulatory risk is managed through coordination between first and second line of defence functions. The Company records, manages and monitors the regulatory compliance environment closely, using the subject matter expertise of both local and enterprise-wide Compliance and Legal stakeholders and reporting on emerging changes that could have a significant impact on the Company's operations or business.

The Company is subject to the risk of litigation relating to its business, operations, products, securities and contractual relationships and it establishes contingency reserves for litigation that it determines are appropriate.

Human Resources Risk

Human Resources risk is the risk of loss resulting from the Company's inability to attract, retain, train and develop the right talent from inadequate recruitment, talent management and succession planning programs and practices, ineffective governance practices or legal action related to discrimination, and can impact the ability of the Company to meet its business objectives. The Company has compensation programs, succession planning, talent management and employee engagement processes that are designed to manage these risks, support a high performance culture and maintain a highly skilled workforce that is reflective of the diverse cultures and practices of the countries in which the Company operates. The Company's ability to recognize and accommodate changing trends with respect to human resources in the industry is important to execute upon business strategies.

Infrastructure Risk

Infrastructure risk is the risk of loss resulting from the reduction or non-availability of any aspect of a fully functioning business environment. This includes corporate facilities, physical assets, human resources and/or technology (technology assets, systems, applications, cloud computing), security (logical, physical and cyber), failures in license management and insufficient software/application support.

The ability to consistently and reliably obtain securities pricing information, accurately process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these services could have an adverse effect on the Company's results of operations and financial condition and could lead to loss of customer confidence, breach of regulatory requirements, harm to the Company's reputation, exposure to disciplinary action and liability to the Company's customers.

The Company invests in and manages infrastructure that is designed to be sustainable and effective in meeting the Company's needs for a fully functioning and secure business operation that protects assets and stakeholder value. Infrastructure risk management programs include strong business continuity capabilities across the enterprise to manage incidents or outages and the recovery of critical functions in the event of a disaster. In addition, security measures are designed to deny unauthorized access to facilities, equipment and resources, and to protect personnel and property from damage or harm (such as espionage, theft or terrorist attacks) and events that could cause serious losses or damage.

Technology and Cyber Risk

Technology and cyber risk is the risk of loss resulting from a purposeful or accidental event related to the use of technology. It includes the risk of cyber-attack that leads to unplanned outages, unauthorized access, or unplanned disclosure of confidential or restricted information resulting in a potential privacy breach. Technology risk also includes the risk of a deterioration in the reliability and availability of internal, customer-facing, or vendor-supported applications, infrastructure systems and/or services. These risks can arise as a result of the Company's use of its own technology or as a result of the use of third party technology providers and other service providers.

The nature of advancing technology introduces additional uncertainty as to how the insurance industry will evolve. Cloud services, which are being adopted by the Company to improve systems flexibility and information security, require scrutiny as digital supply chains grow in complexity.

Technology is a critical component of the Company's business operations and is also central to the Company's customer-focused digital strategy. The Company continues to face technology and cyber risks stemming from legacy technology constraints and the advancement of techniques used in cyber-attacks.

The Company has been implementing new risk management processes and practices designed to allow it to better identify, measure and mitigate this risk, but those processes and practices continue to require further development as well as ongoing updates as technology and business needs evolve. The Company's strategy and approach to managing technology and cyber risks includes policies that govern the technology environment and set standards related to information security and the use of technology, including:

- the use of multiple layers of technologies that are designed to prevent unauthorized access, ransomware attacks, distributed denial of service and other cyber-attacks;
- coordinated global and regional information security offices that gather threat intelligence, detect, monitor and respond to security events and conduct regular threat and vulnerability risk assessments;
- independent oversight and assessment of the approach taken to mitigate technology and cyber risks by the Information Services Risk Management team, an independent group that acts as the second line of defence; and
- regular cyber security awareness sessions and mandatory cyber security training for all employees.

The Company also manages operational risks through the corporate insurance program which mitigates a portion of the operational risk exposure by purchasing insurance coverage that provides protection against unexpected material losses resulting from events such as property loss, cyber-attack or damage and liability exposures. The nature and amount of insurance protection purchased is assessed with regard to the Company's risk profile, risk appetite and tolerance for the associated risks, as well as legal requirements and contractual obligations.

Business Continuity Risk

Business continuity risk is the risk of loss because of the failure to provide for the continuity of business processes and operations under adverse conditions that may arise from natural, technological or human caused events.

A business continuity management framework has been implemented to manage business continuity risks and impacts through the development, testing, training and maintenance in four key areas: emergency response planning incident management planning, business recovery planning and disaster recovery planning.

Poor business resiliency in the face of natural, technological, or human caused events could prevent the Company from carrying out mission-critical business processes, with potential for lost revenue, regulatory sanctions and damage to reputation.

Process Risk

Process risk is the risk of loss resulting from inadequate or failed business processes which can adversely impact the Company's financial results, relationships with customers and reputation. Process risk includes risks arising from significant change initiatives such as business operations changes, major systems implementation, new product introductions and leadership changes. Process risk also includes risk associated with data aggregation and reporting, and model development and use.

Risk management seeks strategic alignment and congruency across all of the Company's business activities, including change initiatives and business-as-usual activities, with the Company's operational risk appetite and considers the potential impact on the Company's reputation. The Company monitors change initiatives to mitigate risks and realize benefits. Core business operational activities have quality control measures in place.

One of the processes relates to model risk and use of models. The Company uses models in many functions and processes that support business decisions and reporting. Model risk is the risk of loss from decisions based on incorrect models or misused model outputs and reports. Robust processes are in place for the management and oversight of model risk as outlined in the Model Risk Management and Validation Standard.

Further, the Company seeks to control processes across the value chain through automation, standardization and process improvements to prevent or reduce operational losses.

Fraud Risk

Fraud risk is the risk of loss resulting from fraudulent activity including misappropriation of assets, identity theft or other breach of civil or criminal law by customers, contractors or other third parties and by employees or distribution associates. The external fraud environment continues to intensify for financial institutions, as increasingly sophisticated methods of organized fraud and cyber fraud are employed. Fraud can result in a financial loss or reputational impact to the Company and have other impacts that are detrimental to customers and other stakeholders.

The Company manages fraud through a combined focus on assessment, prevention, detection, investigation and response. The Company promotes a culture of honesty, integrity, transparency and fairness in its internal operations and further manages fiduciary responsibilities through the Company's Fraud Risk Management Policy and Code of Conduct. The Company has processes and controls in place to prevent fraud and employs various methods to detect fraud. A fraud response framework is in place to deal with events through a coordinated investigative strategy designed to protect stakeholders and the interests of the Company.

Supplier Risk

Supplier risk is the risk of loss resulting from the failure to establish and manage adequate supplier arrangement transactions or other interactions to meet the expected or contracted service level both within the Company and with external parties such as independent brokers, fund managers, reinsurers and other parties. The Company strategically engages suppliers to maintain cost efficiency, to optimize internal resources and capital and to utilize skills, expertise and resources not otherwise available to the Company. Suppliers that do not meet the Company's standards for performance can have a negative impact on the Company's financial results and reputation. To minimize this risk, the Company applies a supplier risk management framework to oversee and monitor interactions with suppliers throughout the entire supplier relationship, including how they meet standards for quality of service and protect stakeholders and the interests of the Company.

Conduct Risk

Risk Description

Conduct risk is the risk of unfair outcomes for customers as a result of inadequate or failed processes and/or inappropriate behaviours, offerings or interactions by the Company or its agents. A failure to identify and mitigate conduct risk impacts not only the Company's customers but can also have adverse reputational and financial consequences for the Company due to the cost of customer remediation, damage to reputation and/or regulatory fines.

Conduct Risk Management

The Company manages conduct risk through various processes which include:

- providing appropriate and clear customer disclosures and communications;
- applying product design, complaint, claims management and sales and advice processes that consider outcomes to customers; and
- conducting risk based advisor assessments and suitability reviews, maintaining controls and adhering to Board-approved policies and processes, including the Conduct Risk Policy and the Code of Conduct.

Conduct Risk is incorporated in risk management and compliance activities, including risk and control assessments, internal events reporting, emerging risk assessments, and other measurement, monitoring and reporting activities.

Strategic Risk

Risk Description

Strategic risk is the risk of loss if the Company is unable to meet its key strategic goals resulting in current or prospective impact on the Company's earnings, capital, reputation or standing. Strategic risk may arise from changes in the environment we operate in, lack of responsiveness to industry, economic, regulatory, technological, environmental or other external changes, or from adverse strategic decisions, inadequate consideration of resources and capabilities needed to deliver the strategy, or poor strategy execution.

The Company's ability to maintain leadership positions in today's highly competitive environment is dependent on many factors, including scale, price and yields offered, distribution channels, digital capabilities, financial strength ratings, range of product lines and product quality, brand strength, investment performance, historical dividend levels to provide value added services to distributors and customers and the ability to innovate and deploy innovations rapidly. Competitors and new entrants have significant potential to disrupt the Company's business through targeted strategies to reduce the Company's market share which may include targeting key people and other distributors or aggressively pricing their products. The Company's ability to achieve strategic objectives depends significantly upon the Company's capacity to anticipate and respond quickly to these competitive pressures.

The Company has placed strategic focus on improving technology infrastructure and capabilities. Not adapting effectively to changes in the technological environment or to evolving customer expectations could impact the Company's ability to remain competitive.

There are significant uncertainties relating to the political environment. Increasing geopolitical tensions may result in reduced trade and investment opportunities, failures of national, regional or global governance, interstate conflict or terrorism which may impact the Company's business.

Strategic Risk Management

Inadequate strategic planning or ineffective implementation of strategies may expose the Company to significant business and financial losses and may also have a flow-through effect on reputation and market standing.

The Company manages strategic risk through a formal strategic planning process, industry representation and activities driven by regular assessment and challenge of the existing business model within the context of its operating environment and scanning of the internal and external environment for risks and opportunities. The Risk Function is engaged in the business planning cycle to align business strategies with the Company's Risk Appetite. The Company's strategic plan is reviewed with the Board of Directors and senior management, with the Risk Function providing objective assessment of enterprise strategic risks and risk mitigation plans. Significant risks and opportunities are identified, and a review of the alignment with risk strategy and qualitative risk preferences is completed. Initiatives, including those related to new markets, distribution channels, product design and investments, are also subject to independent risk review.

Holding Company Structure Risk

As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital.

In the event of bankruptcy, liquidation or reorganization of any of these subsidiaries, insurance and investment contract liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to the Company. In addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company except to the extent that the Company is recognized as a creditor of the relevant subsidiaries.

Any payment (including payment of interest and dividends) by the principal subsidiaries is subject to restrictions set forth in relevant insurance, securities, corporate and other laws and regulations, which require that solvency and capital standards be maintained by Canada Life, GWL&A, and their subsidiaries and certain subsidiaries of Putnam. There are considerable risks and benefits related to this structure.

Management monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company level. Management also establishes lines of credit for additional liquidity and may also access capital markets for funds. Management monitors compliance with the regulatory laws and regulations at both the holding company and operating company levels.

Mergers and Acquisitions Risk

From time-to-time, the Company and its subsidiaries evaluate existing companies, businesses, assets, products and services, and such review could result in the Company or its subsidiaries acquiring or disposing of businesses or assets. In the ordinary course of business, the Company considers and discusses the purchase or sale of companies, businesses segments or assets. If effected, such transactions could be material to the Company in size or scope, could result in risks and contingencies, including integration risks, relating to companies, businesses or assets that the Company acquires or expose it to the risk of claims relating to those it has disposed of, could result in changes in the value of the securities of the Company, including the common shares of the Company, and could result in the Company holding additional capital for contingencies that may arise after the transaction is completed. The Company mitigates these risks by conducting due diligence reviews before acquiring or disposing of companies, businesses or business segments or assets, by negotiating terms and conditions for the transaction and putting in place systems and processes to manage the risks after the transaction is completed.

Product Distribution Risk

Product distribution risk is the risk of loss resulting from the Company's inability to market its products through its network of distribution channels and intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of provider and the consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.

Product distribution risk is managed by maintaining a broad network of distribution relationships, with products distributed through numerous broker-dealers, managing general agencies, financial planners, banks and other financial institutions.

Sustainability Risk

Sustainability risk is the risk of loss arising from the inability to maintain business operations and sustain the growth of the Company due to negative externalities such as environmental degradation, social risk issues and climate change.

The Company may experience direct or indirect financial, operational or reputational impact stemming from environmental risk events, which include environmental issues, regulatory enforcement or costs associated with changes in environmental laws and regulations. The Company endeavors to respect the environment and to take a balanced and sustainable approach to conducting business. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of investment properties, loans secured by real property and investments in equity and fixed-income securities. These policies are approved by the Board of Directors and are reviewed annually.

Exposures and Sensitivities

Insurance and Investment Contract Liabilities

In determining the Company's insurance contract liabilities, valuation assumptions are made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. When the assumptions are revised to reflect emerging experience or change in outlook, the result is a change in the value of liabilities which in turn affects the Company's earnings.

The following table illustrates the approximate impact to the Company's earnings that would arise as a result of changes to management's best estimate of certain assumptions. For changes in asset related assumptions, the sensitivity is shown net of the corresponding impact on earnings of the change in the value of the assets supporting liabilities.

Increase (decrease) in net earnings

	2019	2018
Mortality – 2% increase	**$ (279)**	$ (270)
Annuitant mortality – 2% decrease	**$ (601)**	$ (457)
Morbidity – 5% adverse change	**$ (253)**	$ (271)
Investment returns		
Parallel shift in yield curve		
1% increase	**$ –**	$ –
1% decrease	**$ –**	$ –
Change in interest rates		
1% increase	**$ 175**	$ 115
1% decrease	**$ (619)**	$ (465)
Change in equity values		
10% increase	**$ 87**	$ 73
10% decrease	**$ (129)**	$ (266)
Change in best estimate return assumptions for equities		
1% increase	**$ 509**	$ 476
1% decrease	**$ (585)**	$ (539)
Expenses – 5% increase	**$ (125)**	$ (128)
Policy termination and renewal – 10% adverse change	**$ (813)**	$ (649)

Refer to the "Accounting Policies – Summary of Critical Accounting Estimates" section of this document for additional information on earnings sensitivities.

Accounting Policies

Summary of Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenue and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The estimation of insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use third-party independent credit ratings where available.

The significant accounting estimates include the following:

Fair Value Measurement

Financial and other instruments held by the Company include portfolio investments, various derivative financial instruments, debentures and other debt instruments.

Financial instrument carrying values reflect the liquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Refer to note 10 in the Company's December 31, 2019 consolidated financial statements for disclosure of the Company's financial instruments fair value measurement by hierarchy level as at December 31, 2019.

Fair values for bonds classified as fair value through profit or loss or available-for-sale are determined using quoted market prices. Where prices are not quoted in an active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for equity release mortgages classified as fair value through profit or loss are determined by an internal valuation model that uses discounted future cash flows. Inputs to the model include marketable observable and non-market observable inputs.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value cannot be measured reliably, fair value is estimated to be equal to cost. Fair values for investment properties are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Investment impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset; however, market price is taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish the estimated realizable value. For impaired available-for-sale bonds recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income (loss) is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are already recorded in net investment income; therefore, in the event of an impairment, the reduction will be recorded in net investment income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Goodwill and intangibles impairment testing

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Company would be required to reverse the impairment charge or a portion thereof.

Goodwill and indefinite life intangible assets have been allocated to cash generating unit groupings, representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each cash generating unit grouping containing the assets to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use, which is calculated using the present value of estimated future cash flows expected to be generated. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Insurance and investment contract liabilities

Insurance and investment contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in-force with the Company. The Appointed Actuaries of the Company's subsidiaries are responsible for determining the amount of the liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of mis-estimation and/or future deterioration in the best-estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. Annuitant mortality is also studied regularly, and the results used to modify established annuitant mortality tables. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Improvement scales for life insurance and annuitant mortality are updated periodically based on population and industry studies, product specific considerations, as well as professional guidance. In addition, appropriate provisions are made for future mortality deterioration on term insurance.

- A 2% increase in the best estimate life insurance mortality assumption would cause a decrease in net earnings of approximately $279 million.
- A 2% decrease in the best estimate annuitant assumption would cause a decrease in net earnings of approximately $601 million.

Morbidity – The Company uses industry developed experience tables modified to reflect emerging Company experience. Both claim incidence and termination are monitored regularly, and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption, a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best-estimate incidence assumptions for active life liabilities would cause a decrease in net earnings of approximately $253 million.

Property and casualty reinsurance – Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG) are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses, which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries' prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained, however, the parallel shift could impact the Company's range of scenarios covered.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries' prescribed scenarios.

- The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios resulted in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios resulted in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders' net earnings of the Company of a 1% change in the Company's view of the range of interest rates to be covered by these provisions.

- The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately $230 million causing an increase in net earnings of approximately $175 million.
- The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately $811 million causing a decrease in net earnings of approximately $619 million.

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities; for example, segregated fund products and products with long-tail cash flows. Generally, these liabilities will fluctuate in line with equity values. However, there may be additional market and liability impacts as a result of changes in the equity values that will cause the liabilities to fluctuate differently than the equity values.

- A 10% increase in equity values would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $107 million, causing an increase in net earnings of approximately $87 million.
- A 10% decrease in equity values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $162 million, causing a decrease in net earnings of approximately $129 million.

The best-estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows.

- A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $645 million causing an increase in net earnings of approximately $509 million.
- A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $752 million causing a decrease in net earnings of approximately $585 million.

Expenses – Contractual policy expenses (e.g. sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under CALM as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would cause a decrease in net earnings of approximately $125 million.

Policy termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company's most significant exposures are in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of the term for renewable term policies in Canada and Reinsurance. Industry experience has guided the Company's assumptions for these products as its own experience is very limited. A 10% adverse change in the best-estimate policy termination and renewal assumptions would cause a decrease in net earnings of approximately $813 million.

Utilization of elective policy options – There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on Company or industry experience when it exists and otherwise based on judgement considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features – Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is the Company's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholders' net earnings is reflected in the impacts of changes in best estimate assumptions above.

Income taxes

The Company is subject to income tax laws in various jurisdictions. The Company's operations are complex and related income tax interpretations, regulations and legislation that pertain to its activities are subject to continual change. As multinational life insurance companies, the Company's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the *Income Tax Act (Canada)* for purposes of determining the amount of the Companies' income that will be subject to tax in Canada.

Tax planning strategies to obtain tax efficiencies are used. The Company continually assesses the uncertainty associated with these strategies and holds an appropriate level of provisions for uncertain income tax positions. Accordingly, the provision for income taxes represents management's interpretation of the relevant income tax laws and its estimate of current and deferred income tax balances for the period. Deferred income tax assets and liabilities are recorded based on expected future income tax rates and management's assumptions regarding the expected timing of the reversal of temporary differences. The Company has substantial deferred income tax assets. The recognition of deferred income tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the realization of the asset.

The audit and review activities of tax authorities may affect the ultimate determination of the amounts of income taxes payable or receivable, deferred income tax assets or liabilities and income tax expense. Therefore, there can be no assurance that income taxes will be payable as anticipated and/or the amount and timing of receipt or use of the income tax related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived income tax issues and have increased the resources they put to these efforts.

Employee future benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. For most plans, active plan participants share in the cost of benefits through employee contributions in respect of current service. Certain pension payments are indexed on either an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits in accordance with the terms of the plans. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets. The defined benefit plans of the Company's subsidiaries are closed to new entrants with plans in several geographies also closed to future defined benefit accruals. New hires are eligible only for defined contribution benefits. Active plan participants in defined benefit plans closed to future defined benefit accruals are eligible to accrue defined contribution benefits. The Company's defined benefit plan exposure will continue to be reduced in future years. The defined contribution pension plans provide pension benefits based on accumulated employee and subsidiary Company contributions. The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. These plans are also closed to new entrants. For further information on the Company's pension plans and other post-employment benefits refer to note 24 in the Company's December 31, 2019 consolidated financial statements.

For the defined benefit plans of the Company's subsidiaries, service costs and net interest costs are recognized in the Consolidated Statements of Earnings. Service costs include current service cost, administration expenses, past service costs and the impact of curtailments and settlements. Re-measurements of the defined benefit liability (asset) due to asset returns less (greater) than interest income, actuarial losses (gains) and changes in the asset ceiling are recognized immediately in the Consolidated Statements of Comprehensive Income.

Accounting for defined benefit pension and other post-employment benefits requires estimates of expected increases in compensation levels, indexation of certain pension payments, trends in health-care costs, the period of time over which benefits will be paid, as well as the appropriate discount rates for past and future service liabilities. These assumptions are determined by management using actuarial methods, and are reviewed and approved annually. Emerging experience that differs from the assumptions will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

Actuarial assumptions – employee future benefits

At December 31	Defined benefit pension plans 2019	Defined benefit pension plans 2018	Other post-employment benefits 2019	Other post-employment benefits 2018
Actuarial assumptions used to determine benefit cost				
Discount rate – past service liabilities	**3.4%**	3.1%	**3.8%**	3.5%
Discount rate – future service liabilities	**3.8%**	3.4%	**4.4%**	3.8%
Rate of compensation increase	**3.0%**	3.1%	**–**	–
Future pension increases (1)	**1.4%**	1.3%	**–**	–
Actuarial assumptions used to determine defined benefit obligation				
Discount rate – past service liabilities	**2.6%**	3.4%	**3.1%**	3.8%
Rate of compensation increase	**2.9%**	3.0%	**–**	–
Future pension increases (1)	**1.3%**	1.4%	**–**	–
Medical cost trend rates:				
Initial medical cost trend rate			**4.7%**	4.8%
Ultimate medical cost trend rate			**4.1%**	4.1%
Year ultimate trend rate is reached			**2039**	2040

(1) Represents the weighted average of plans subject to future pension increases.

Actuarial assumptions – The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty, and judgment is required in establishing this assumption. As mortality assumptions are significant in measuring the defined benefit obligation, the mortality assumptions applied by the Company take into consideration such factors as age, gender and geographic location, in addition to an estimation of future improvements in longevity.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practices. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

As these assumptions relate to factors that are long-term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the pension and post-employment benefits expense and defined benefit obligation in future years. There is no assurance that the plans will be able to earn assumed rates of return, and market driven changes to assumptions could impact future contributions and expenses.

The following table indicates the impact of changes to certain key assumptions related to pension and post-employment benefits.

Impact of a change of 1.0% in actuarial assumptions on defined benefit obligation (1)

	1% increase 2019	1% increase 2018	1% decrease 2019	1% decrease 2018
Defined benefit pension plans:				
Impact of a change to the discount rate	**$ (1,242)**	$ (1,109)	**$ 1,630**	$ 1,444
Impact of a change to the rate of compensation increase	**311**	277	**(284)**	(252)
Impact of a change to the rate of inflation	**598**	526	**(541)**	(477)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	**27**	26	**(23)**	(23)
Impact of a change to the discount rate	**(41)**	(38)	**50**	46

(1) To measure the impact of a change in an assumption, all other assumptions were held constant. It is expected that there would be interaction between at least some of the assumptions.

Funding – The Company's subsidiaries have both funded and unfunded pension plans as well as other post-employment benefit plans that are unfunded. The Company's subsidiaries' funded pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company's subsidiaries contributed $294 million ($280 million in 2018) to the pension plans and made benefit payments of $20 million ($19 million in 2018) for post-employment benefits. The Company's subsidiaries expect to contribute $259 million to the pension plans and make benefit payments of $21 million for post-employment benefits in 2020.

International Financial Reporting Standards

Due to the evolving nature of IFRS, there are a number of IFRS changes impacting the Company in 2019, as well as standards that could impact the Company in future reporting periods. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations.

Effective January 1, 2019, the Company applied International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments* (IFRIC 23). The interpretation clarifies how to apply the recognition and measurement requirements in International Accounting Standards (IAS) 12, *Income Taxes*, when there is uncertainty over income tax treatments. The application of the interpretation of the standard resulted in a decrease of $109 million to opening accumulated surplus at January 1, 2019 reflecting $52 million for Canada and $57 million for Europe.

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* (IFRS 16) which replaces IAS 17, *Leases* (IAS 17). The standard prescribes new guidance for identifying leases as well as the accounting, measurement and presentation of leases by the lessee. The Company has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 has not been restated.

The Company adopted the narrow scope amendments to IFRS for IAS 28, *Investments in Associates and Joint Ventures*, IAS 19, *Employee Benefits*, and *Annual Improvements 2015 – 2017 Cycle* for the amendments to IFRS 3, *Business Combinations*, IFRS 11, *Joint Arrangements*, IAS 12, *Income Taxes* and IAS 23, *Borrowing Costs*, effective January 1, 2019. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

For a further description of the impact of the accounting policy change, refer to note 2 of the Company's December 31, 2019 consolidated financial statements.

IFRS that have changed or may change subsequent to 2019 and could impact the Company in future reporting periods, are set out in the following table:

Standard	Summary of Future Changes
IFRS 17 – *Insurance Contracts*	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard by one year to January 1, 2022. In addition, the IASB extended to January 1, 2022 the exemption for insurers to apply the financial instruments standard, IFRS 9 – *Financial Instruments*, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period on the exposure draft, the IASB is considering a deferral beyond January 1, 2022 for the effective date of IFRS 17. The IASB has confirmed certain amendments proposed in the exposure draft – namely the amendment on the expected recovery of insurance acquisition cash flows and has also agreed to extend the scope of the amendment related to the recovery of losses on reinsurance contracts to apply to all reinsurance held contracts. The adoption of IFRS 17 is a significant initiative for the Company supported by a formal governance framework and project plan, for which substantial resources are being dedicated. The Company has assembled a project team that is working on the implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational change management. These groups are also monitoring developments from the IASB, and various industry groups that the Company has representation on. The Company has made progress in implementing its project plan, with key policy decisions well-advanced as well as progression on the implementation of the technology solution. The Company continues to evaluate the readiness of technology vendors and their ability to deliver for IFRS 17 implementation. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows – the current estimates of amounts that a company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (a) the contractual service margin – the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfillment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the Canadian Asset Liability Method, where the discount rate was based on the yield curves of the assets supporting those liabilities. The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. In 2019, the Company recognized approximately $108 million of net new business losses (losses of approximately $195 million in 2018). IFRS 17 also requires the Company to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. The Company is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, the Company expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the Consolidated Statements of Earnings in particular, the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the consolidated financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. The Company is also actively monitoring potential impacts on regulatory capital and the associated ratios and disclosures. The Company continues to assess all these impacts through its global implementation plan.

Standard	Summary of Future Changes
IFRS 9 – *Financial Instruments*	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments* (IFRS 9) to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The effective date for IFRS 9 has been deferred to align with the effective date for IFRS 17 of January 1, 2022. The standard provides changes to financial instruments accounting for the following: • classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; • impairment based on an expected loss model; and • hedge accounting that incorporates the risk management practices of an entity. In September 2016, the IASB issued an amendment to IFRS 4, *Insurance Contracts* (IFRS 4). The amendment "Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: • *Deferral Approach* – provides the option to defer implementation of IFRS 9 until the year 2022 or the effective date of the new insurance contract standard, whichever is earlier; or • *Overlay Approach* – provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Company qualifies for the amendment and is applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17 simultaneously. The disclosure for the measurement and classification of the Company's portfolio investments provides most of the information required by IFRS 9. The Company continues to evaluate the impact for the adoption of this standard with the adoption of IFRS 17.
IFRS 3 – *Business Combinations*	In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. The amendments will be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.
IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*	In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments are to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.
IFRS 9 – *Financial Instruments*, IAS 39 – *Financial Instruments: Recognition and Measurement* and IFRS 7 – *Financial Instruments: Disclosures*	In September 2019, the IASB issued amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective January 1, 2020. Although adoption of these amendments will not have a significant impact on the Company's consolidated financial statements, additional disclosures will be required.

Other Information

Non-IFRS Financial Measures

The Company uses several non-IFRS measures to measure overall performance of the Company and to assess each of its business units. A financial measure is considered a non-IFRS measure for Canadian securities law purposes if it is presented other than in accordance with generally accepted accounting principles used for the Company's consolidated financial statements. The consolidated financial statements of the Company have been prepared in compliance with IFRS as issued by the IASB. Non-IFRS measures do not have a standardized meaning under IFRS and may not be comparable to similar financial measures presented by other issuers.

Adjusted net earnings and adjusted earnings per share

Adjusted net earnings (loss) and financial measures based on adjusted net earnings (loss), including adjusted earnings per common share and adjusted return on equity, are non-IFRS financial measures. Adjusted net earnings (loss) remove the impact of certain non-routine and/or material items that create volatility in the Company's results under IFRS and assist in explaining the Company's results from period to period.

Adjusted net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Net earnings – common shareholders	**$ 513**	$ 730	$ 710	**$ 2,359**	$ 2,961
Adjustments					
Revaluation of a deferred tax asset [1]	**199**	–	–	**199**	–
Restructuring costs [2]	**36**	–	–	**36**	56
Net gain on Scottish Friendly transaction [3]	**(8)**	–	–	**(8)**	–
Net charge on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business [4]	**–**	–	–	**199**	–
Adjusted net earnings – common shareholders	**$ 740**	$ 730	$ 710	**$ 2,785**	$ 3,017
Net earnings per common share – basic	**$ 0.552**	$ 0.786	$ 0.719	**$ 2.494**	$ 2.996
Adjustments					
Revaluation of a deferred tax asset [1]	**0.215**	–	–	**0.210**	–
Restructuring costs [2]	**0.039**	–	–	**0.039**	0.056
Net gain on Scottish Friendly transaction [3]	**(0.009)**	–	–	**(0.009)**	–
Net charge on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business [4]	**–**	–	–	**0.210**	–
Adjusted net earnings per common share – basic	**$ 0.797**	$ 0.786	$ 0.719	**$ 2.944**	$ 3.052

(1) Adjustment to net earnings for the three and twelve months ended December 31, 2019 was the impact of the revaluation of a deferred tax of $199 million (US$151 million) related to the Asset Management business unit and is included in Corporate business unit of the U.S. segment.

(2) Adjustment to net earnings for the three and twelve months ended December 31, 2019 was $36 million (US$28 million) of restructuring costs relating to the Asset Management business unit and is included in Corporate business unit of the U.S. segment. Adjustment to net earnings for the twelve months ending December 31, 2018 was $56 million of restructuring costs relating to the Company's U.K. operations and is included in the Corporate business unit of the Europe segment.

(3) Adjustment to net earnings for the three and twelve months ended December 31, 2019 was a net gain of $8 million on the sale of Scottish Friendly and is included in the Corporate business unit of the Europe segment.

(4) Adjustment to net earnings for the twelve months ended December 31, 2019 was a net charge of $199 million (US$148 million) relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business and is included in the Reinsured Insurance & Annuity Business unit of the U.S. segment.

Return on equity (ROE)

The Company has a capital allocation methodology, which allocates financing costs in proportion to allocated capital. For the Canadian and European segments (essentially Great-West Life), this allocation method generally tracks the regulatory capital requirements, while for U.S. Financial Services and U.S. Asset Management (Putnam), it tracks the financial statement carrying value of the business units. Total leverage capital is consistently allocated across all business units in proportion to total capital resulting in a debt-to-equity ratio in each business unit mirroring the consolidated Company.

The capital allocation methodology allows the Company to calculate comparable ROE for each business unit. These ROEs are therefore based on the capital the business unit has been allocated and the financing charges associated with that capital. IFRS does not prescribe the calculation of ROE and therefore a comparable measure under IFRS is not available. To determine ROE and adjusted ROE, respectively, net earnings (loss) and adjusted net earnings (loss) for the trailing four quarters are divided by the average common shareholders' equity over the trailing four quarters. This measure provides an indicator of business unit profitability.

Premiums and deposits

Total premiums and deposits include premiums on risk-based insurance and annuity products net of ceded reinsurance (as defined under IFRS), premium equivalents on self-funded group insurance ASO contracts, deposits on individual and group segregated fund products as well as deposits on proprietary mutual funds and institutional accounts. Total premiums and deposits exclude the initial ceded premium related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business. This measure provides an indicator of top-line growth.

Premiums and deposits

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Amounts reported in the financial statements					
Net premium income (Life insurance, guaranteed annuities and insured health products)	**$ 9,478**	$ 9,324	$ 9,045	**$ 24,510**	$ 35,461
Policyholder deposits (segregated funds):					
Individual products	**5,446**	4,146	4,705	**16,947**	16,668
Group products	**1,913**	1,999	1,641	**7,738**	7,807
Premiums and deposits reported in the financial statements	**$ 16,837**	$ 15,469	$ 15,391	**$ 49,195**	$ 59,936
Self-funded premium equivalents (administrative services only contracts)	**841**	813	802	**3,295**	3,068
Proprietary mutual funds and institutional deposits	**21,418**	20,135	21,390	**84,259**	76,258
Add back: U.S. Individual Life Insurance & Annuity Business – initial reinsurance ceded premiums	**–**	–	–	**13,889**	–
Total premiums and deposits	**$ 39,096**	$ 36,417	$ 37,583	**$ 150,638**	$ 139,262

Assets under management (AUM) and assets under administration (AUA)

Assets under management and assets under administration are non-IFRS measures that provide an indicator of the size and volume of the Company's overall business.

Assets under management include internally and externally managed funds where the Company has oversight of the investment policies. Services provided in respect of assets under management include the selection of investments, the provision of investment advice and discretionary portfolio management on behalf of clients.

Other assets under administration includes assets where the Company only provides administration services for which the Company earns fees and other income. These assets are beneficially owned by the clients and the Company does not direct the investing activities. Services provided relating to assets under administration include recordkeeping, safekeeping, collecting investment income, settling of transactions or other administrative services. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

Assets under administration

	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018
Total assets per financial statements	**$ 451,167**	$ 446,626	$ 427,689
Proprietary mutual funds and institutional net assets	**320,548**	308,425	281,664
Total assets under management	**771,715**	755,051	709,353
Other assets under administration	**857,966**	841,700	689,520
Total assets under administration	**$1,629,681**	$ 1,596,751	$ 1,398,873

Financial leverage ratio

The consolidated financial leverage ratio for the Company is defined as debt, hybrid securities and preferred shares divided by total consolidated capitalization.

Sales

Sales is a non-IFRS measure for which there is no comparable measure in IFRS and is an indicator of new business growth. Sales are measured according to product type:

- For risk-based insurance and annuity products, sales include 100% of single premium and annualized premiums expected in the first twelve months of the plan.
- Group insurance and ASO sales reflect annualized premiums and premium equivalents for new policies and new benefits covered or expansion of coverage on existing policies.
- For individual wealth management products, sales include deposits on segregated fund products, proprietary mutual funds and institutional accounts as well as deposits on non-proprietary mutual funds.
- For group wealth management products, sales include assets transferred from previous plan providers and the expected annual contributions from the new plan.

Impact of currency movement

Items impacting the Company's Consolidated Statements of Earnings, such as income and benefits and expenses and net earnings, are translated into Canadian dollars at an average rate for the period. For items impacting the Company's Consolidated Balance Sheets, such as assets and liabilities, period end rates are used for currency translation purposes.

Throughout this document a number of terms are used to highlight the impact of foreign exchange on results, such as: "constant currency basis", "impact of currency movement", and "effect of currency translation fluctuations". These measures highlight the impact of changes in currency translation rates on Canadian dollar equivalent IFRS results and have been calculated using the average or period end rates, as appropriate, in effect at the date of the comparative period. These measures provide useful information as it facilitates the comparability of results between periods.

Core net earnings (loss)

For its Asset Management business unit in the U.S segment, the Company discloses core net earnings (loss), which is a measure of the business unit's performance. Core net earnings (loss) includes the impact of dealer commissions and software amortization and excludes the impact of certain corporate financing charges and allocations, certain tax adjustments and other non-recurring transactions. There is no directly comparable IFRS measure.

Core net earnings

	For the three months ended			For the twelve months ended	
	Dec. 31 2019	Sept. 30 2019	Dec. 31 2018	**Dec. 31 2019**	Dec. 31 2018
Core net earnings	**$ 28**	$ 22	$ (18)	**$ 78**	$ (11)
Less: Financing and other expenses (after-tax)	**(10)**	(9)	(11)	**(45)**	(50)
Reported net earnings (loss)	**$ 18**	$ 13	$ (29)	**$ 33**	$ (61)
Core net earnings (US$)	**$ 21**	$ 17	$ (14)	**$ 59**	$ (8)
Less: Financing and other expenses (after-tax) (US$)	**(8)**	(8)	(8)	**(35)**	(39)
Reported net earnings (loss) (US$)	**$ 13**	$ 9	$ (22)	**$ 24**	$ (47)

Pre-tax operating margin

For the Company's Asset Management business unit in the U.S. segment, this ratio provides measure of the profitability of the business unit. It is based on the business unit's pre-tax core net earnings (loss) divided by the sum of fee income and net investment income. There is no directly comparable IFRS measure.

Selected Annual Information

(in $ millions, except per share amounts)	Years ended December 31 2019	2018	2017 [1]
Total revenue [1]	**$ 44,698**	$ 44,032	$ 47,117
Net earnings – common shareholders			
Net earnings	**2,359**	2,961	2,149
Net earnings per common share			
Basic	**2.494**	2.996	2.173
Diluted	**2.493**	2.994	2.170
Total assets			
Total assets	**$ 451,167**	$ 427,689	$ 419,838
Proprietary mutual funds and institutional assets [2]	**320,548**	281,664	278,954
Total assets under management [2]	**771,715**	709,353	698,792
Other assets under administration [2]	**857,966**	689,520	651,121
Total assets under administration [2]	**$1,629,681**	$1,398,873	$1,349,913
Total liabilities	**$ 425,624**	$ 400,291	$ 394,302
Dividends paid per share			
Series F First Preferred	**1.4750**	1.4750	1.4750
Series G First Preferred	**1.3000**	1.3000	1.3000
Series H First Preferred	**1.21252**	1.21252	1.21252
Series I First Preferred	**1.1250**	1.1250	1.1250
Series L First Preferred	**1.41250**	1.41250	1.41250
Series M First Preferred	**1.450**	1.450	1.450
Series N First Preferred [3]	**0.544000**	0.544000	0.544000
Series O First Preferred [4]	**0.744956**	0.628745	0.466386
Series P First Preferred	**1.350**	1.350	1.350
Series Q First Preferred	**1.2875**	1.2875	1.2875
Series R First Preferred	**1.200**	1.200	1.200
Series S First Preferred	**1.312500**	1.312500	1.312500
Series T First Preferred [5]	**1.2875**	1.2875	0.7981
Common	**1.652**	1.556	1.468

(1) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, Revenue from Contracts with Customers, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's December 31, 2018 annual consolidated financial statements.

(2) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(3) The Series N First Preferred Share dividend was reset to a five year fixed dividend rate of 2.176% per annum on December 30, 2015 which applies until December 30, 2020, at which time the dividend rate becomes equal to the five year Government of Canada Treasury Bill yield plus 1.30%.

(4) The Series O First Preferred Share dividend was reset to 3 month floating dividend rate on December 30, 2015. The floating dividend rate is reset quarterly to the three month Government of Canada Treasury Bill yield plus 1.30%.

(5) The Series T First Preferred Shares were issued on May 18, 2017. The first dividend payment was made on September 29, 2017 in the amount of $0.476200 per share. Regular quarterly dividends are $0.321875 per share.

Quarterly Financial Information

(in $ millions, except per share amounts)	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Total revenue [1]	**$ 10,689**	$ 14,374	$ 2,746	$ 16,889	$ 11,699	$ 12,027	$ 10,613	$ 9,693
Common shareholders								
Net earnings								
Total	**$ 513**	$ 730	$ 459	$ 657	$ 710	$ 689	$ 831	$ 731
Basic – per share	**0.552**	0.786	0.489	0.665	0.719	0.697	0.839	0.740
Diluted – per share	**0.552**	0.785	0.489	0.665	0.719	0.697	0.839	0.739
Adjusted net earnings [2]								
Total	**$ 740**	$ 730	$ 658	$ 657	$ 710	$ 745	$ 831	$ 731
Basic – per share	**0.797**	0.786	0.701	0.665	0.719	0.754	0.839	0.740
Diluted – per share	**0.796**	0.785	0.700	0.665	0.719	0.753	0.839	0.739

(1) Revenue includes the changes in fair value through profit or loss on investment assets.

(2) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Lifeco's consolidated net earnings attributable to common shareholders were $513 million for the fourth quarter of 2019 compared to $710 million reported a year ago. On a per share basis, this represents $0.552 per common share ($0.552 diluted) for the fourth quarter of 2019 compared to $0.719 per common share ($0.719 diluted) a year ago.

Total revenue for the fourth quarter of 2019 was $10,689 million and comprises premium income of $9,478 million, regular net investment income of $1,462 million, a negative change in fair value through profit or loss on investment assets of $1,766 million and fee and other income of $1,515 million.

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed or submitted by it under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2019 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the 2013 *Internal Control – Integrated Framework* (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management adopted the revised 2013 COSO Framework in 2015 as the basis to evaluate the effectiveness of the Lifeco's internal control over financial reporting.

During the twelve months ended December 31, 2019, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2019 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting.

Relationship with Power Corporation Group of Companies

Lifeco's controlling shareholder is Power Financial Corporation (Power Financial), which is controlled by Power Corporation of Canada (Power Corporation) and, ultimately, by the Desmarais Family Residuary Trust. Power Corporation also controls IGM Financial Inc. and its subsidiaries (IGM), as well as Portag3 Ventures II Limited Partnership (Portag3), which invests in the FinTech sector and in which both Lifeco and IGM are investors. Some of these related entities operate in similar or related sectors to those in which Lifeco's subsidiaries operate. A number of the Company's directors are also directors or officers of Power Corporation or one of its affiliates.

Lifeco's relationship with Power Financial, Power Corporation, IGM, Portag3 and other members of the Power Corporation group of companies enables Lifeco to access expertise and industry knowledge, achieve economies of scale and access investment opportunities. As a result of these relationships, Lifeco and other members of the Power Corporation group of companies may become aware of opportunities that are also of potential interest to other members of the group and Lifeco may share information for that purpose. Power Corporation and Power Financial from time to time also assist Lifeco to identify and analyze strategic corporate opportunities that may be of potential interest to it. However, Power Corporation and Power Financial have no commitment to Lifeco that would require them or their respective subsidiaries, directors or officers to offer any particular opportunity to Lifeco.

The Company has related party procedures that require, among other things, transactions between the Company and its subsidiaries and any member of the Power Corporation group of companies to be on terms no less favourable than market terms or where there is no open market, on terms that would reasonably be expected to provide at least fair value to the Company. Under the related party procedures, any material related party transactions must be reviewed and approved by a conduct review committee composed entirely of directors who are independent of management and Power Corporation and its affiliates.

Transactions with Related Parties

As part of the substantial issuer bid, Power Financial and IGM participated in the Offer. IGM tendered its Lifeco shares proportionately. Power Financial tendered a portion of its Lifeco common shares on a proportionate basis and all remaining Lifeco common shares on a non-proportionate basis and this did not impact Power Financial's voting control of the Company. Power Financial and IGM effected their tender offers through a Qualifying Holdco Alternative, which the Company also offered to other shareholders, to assist them in achieving certain Canadian tax objectives.

In the normal course of business, Great-West Life and Putnam enter into various transactions with related companies, which include providing insurance benefits and sub-advisory services to other companies within the Power Financial group of companies enabling each organization to take advantage of economies of scale and areas of expertise. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM and its subsidiaries certain administrative and information technology services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided at market terms and conditions.

Segregated funds of the Company were invested in funds managed by IG Wealth Management and Mackenzie Investments. The Company also has interests in mutual funds, open-ended investment companies and unit trusts. Some of these funds are managed by related parties of the Company and the Company receives management fees related to these services. All transactions were provided at market terms and conditions.

At December 31, 2019, the Company held $101 million ($86 million in 2018) of debentures issued by IGM. During 2019, the Company purchased debentures from IGM with a total market value at December 31, 2019 of $10 million ($14 million in 2018).

During the normal course of business in 2019, the Company purchased residential mortgages of $11 million from IGM ($61 million in 2018).

The Company holds investments in Portag3 Ventures Limited Partnership, Portag3 Ventures II Limited Partnership, Wealthsimple Europe S.a.r.l. and other entities which invest in the FinTech sector. These investments were made in partnership with Power Financial, IGM and, in certain circumstances, outside investors.

The Company provides asset management, employee benefits and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of the Company and its subsidiaries. These transactions were provided at market terms and conditions.

As at December 31, 2019 and December 31, 2018, there were no significant outstanding loans or guarantees and no material loans or guarantees issued during 2019 or 2018 with related parties. There were no provisions for uncollectible amounts from related parties during 2019 or 2018.

Translation of Foreign Currency

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the U.S. dollar, the British pound and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the reporting period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency

	2019				2018			
Period ended	**Dec. 31**	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
United States dollar								
Balance sheet	**$ 1.30**	$ 1.32	$ 1.31	$ 1.34	$ 1.36	$ 1.29	$ 1.31	$ 1.29
Income and expenses	**$ 1.32**	$ 1.32	$ 1.34	$ 1.33	$ 1.32	$ 1.31	$ 1.29	$ 1.26
British pound								
Balance sheet	**$ 1.72**	$ 1.63	$ 1.66	$ 1.74	$ 1.74	$ 1.69	$ 1.73	$ 1.81
Income and expenses	**$ 1.70**	$ 1.63	$ 1.72	$ 1.73	$ 1.70	$ 1.70	$ 1.76	$ 1.76
Euro								
Balance sheet	**$ 1.46**	$ 1.44	$ 1.49	$ 1.50	$ 1.56	$ 1.50	$ 1.53	$ 1.59
Income and expenses	**$ 1.46**	$ 1.47	$ 1.50	$ 1.51	$ 1.51	$ 1.52	$ 1.54	$ 1.55

Additional information relating to Lifeco, including Lifeco's most recent consolidated financial statements, CEO/CFO certification and Annual Information Form are available at www.sedar.com.

Page intentionally left blank.

Consolidated Statements of Earnings

(in Canadian $ millions except per share amounts)

For the years ended December 31	2019	2018
Income		
Premium income		
Gross premiums written	**$ 43,266**	$ 39,984
Ceded premiums	**(18,756)**	(4,523)
Total net premiums	**24,510**	35,461
Net investment income (note 7)		
Regular net investment income	**6,161**	6,358
Changes in fair value through profit or loss	**6,946**	(3,606)
Total net investment income	**13,107**	2,752
Fee and other income	**7,081**	5,819
	44,698	44,032
Benefits and expenses		
Policyholder benefits		
Gross	**37,769**	32,357
Ceded	**(2,916)**	(2,445)
Total net policyholder benefits	**34,853**	29,912
Changes in insurance and investment contract liabilities		
Gross	**10,155**	441
Ceded	**(13,479)**	61
Total net changes in insurance and investment contract liabilities	**(3,324)**	502
Policyholder dividends and experience refunds	**1,562**	1,654
Total paid or credited to policyholders	**33,091**	32,068
Commissions	**2,429**	2,474
Operating and administrative expenses (note 28)	**5,231**	5,033
Premium taxes	**506**	495
Financing charges (note 17)	**285**	221
Amortization of finite life intangible assets (note 11)	**224**	212
Restructuring expenses (note 5)	**52**	67
Earnings before income taxes	**2,880**	3,462
Income taxes (note 27)	**373**	387
Net earnings before non-controlling interests	**2,507**	3,075
Attributable to non-controlling interests (note 19)	**15**	(19)
Net earnings	**2,492**	3,094
Preferred share dividends (note 21)	**133**	133
Net earnings – common shareholders	**$ 2,359**	$ 2,961
Earnings per common share (note 21)		
Basic	**$ 2.494**	$ 2.996
Diluted	**$ 2.493**	$ 2.994

Consolidated Statements of Comprehensive Income

(in Canadian $ millions)

For the years ended December 31	2019	2018
Net earnings	**$ 2,492**	$ 3,094
Other comprehensive income		
Items that may be reclassified subsequently to Consolidated Statements of Earnings		
Unrealized foreign exchange gains (losses) on translation of foreign operations	**(561)**	766
Unrealized foreign exchange gains (losses) on euro debt designated as hedges of the net investment in foreign operations	**100**	(50)
Income tax (expense) benefit	**(14)**	7
Unrealized gains (losses) on available-for-sale assets	**232**	(114)
Income tax (expense) benefit	**(37)**	22
Realized (gains) losses on available-for-sale assets	**(69)**	6
Income tax expense (benefit)	**6**	(1)
Unrealized gains (losses) on cash flow hedges	**2**	23
Income tax (expense) benefit	**–**	(4)
Realized (gains) losses on cash flow hedges	**–**	(69)
Income tax expense (benefit)	**–**	17
Non-controlling interests	**(46)**	30
Income tax (expense) benefit	**7**	(5)
Total items that may be reclassified	**(380)**	628
Items that will not be reclassified to Consolidated Statements of Earnings		
Re-measurements on defined benefit pension and other post-employment benefit plans (note 24)	**(226)**	34
Income tax (expense) benefit	**47**	(5)
Non-controlling interests	**13**	2
Income tax (expense) benefit	**(4)**	–
Total items that will not be reclassified	**(170)**	31
Total other comprehensive income (loss)	**(550)**	659
Comprehensive income	**$ 1,942**	$ 3,753

Consolidated Balance Sheets

(in Canadian $ millions)

December 31	2019	2018
Assets		
Cash and cash equivalents (note 6)	**$ 4,628**	$ 4,168
Bonds (note 7)	**115,028**	124,862
Mortgage loans (note 7)	**24,268**	25,014
Stocks (note 7)	**10,375**	9,290
Investment properties (note 7)	**5,887**	5,218
Loans to policyholders	**8,601**	8,929
	168,787	177,481
Assets held for sale (note 4)	**–**	897
Funds held by ceding insurers (note 8)	**8,714**	9,251
Reinsurance assets (note 14)	**20,707**	6,126
Goodwill (note 11)	**6,505**	6,548
Intangible assets (note 11)	**3,879**	3,976
Derivative financial instruments (note 29)	**451**	417
Owner occupied properties (note 12)	**727**	731
Fixed assets (note 12)	**455**	448
Other assets (note 13)	**3,110**	2,567
Premiums in course of collection, accounts and interest receivable	**5,881**	5,202
Current income taxes	**236**	218
Deferred tax assets (note 27)	**693**	981
Investments on account of segregated fund policyholders (note 15)	**231,022**	209,527
Investments on account of segregated fund policyholders held for sale (note 4)	**–**	3,319
Total assets	**$ 451,167**	$ 427,689
Liabilities		
Insurance contract liabilities (note 14)	**$ 174,521**	$ 166,720
Investment contract liabilities (note 14)	**1,656**	1,711
Liabilities held for sale (note 4)	**–**	897
Debentures and other debt instruments (note 16)	**5,993**	6,459
Funds held under reinsurance contracts	**1,433**	1,367
Derivative financial instruments (note 29)	**1,381**	1,562
Accounts payable	**3,352**	3,262
Other liabilities (note 18)	**4,689**	3,855
Current income taxes	**461**	402
Deferred tax liabilities (note 27)	**1,116**	1,210
Investment and insurance contracts on account of segregated fund policyholders (note 15)	**231,022**	209,527
Investment and insurance contracts on account of segregated fund policyholders held for sale (note 4)	**–**	3,319
Total liabilities	**425,624**	400,291
Equity		
Non-controlling interests (note 19)		
Participating account surplus in subsidiaries	**2,759**	2,737
Non-controlling interests in subsidiaries	**107**	138
Shareholders' equity		
Share capital (note 20)		
Preferred shares	**2,714**	2,714
Common shares	**5,633**	7,283
Accumulated surplus	**13,660**	13,342
Accumulated other comprehensive income (note 25)	**495**	1,045
Contributed surplus	**175**	139
Total equity	**25,543**	27,398
Total liabilities and equity	**$ 451,167**	$ 427,689

Approved by the Board of Directors:

Signed,
Jeffrey Orr
Chair of the Board

Signed,
Paul Mahon
President and Chief Executive Officer

Consolidated Statements of Changes in Equity

(in Canadian $ millions)

	December 31, 2019					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	**$ 9,997**	**$ 139**	**$ 13,342**	**$ 1,045**	**$ 2,875**	**$ 27,398**
Change in accounting policy (note 2)	–	–	(109)	–	–	(109)
Revised balance, beginning of year	9,997	139	13,233	1,045	2,875	27,289
Net earnings	–	–	2,492	–	15	2,507
Other comprehensive income (loss)	–	–	–	(550)	30	(520)
	9,997	139	15,725	495	2,920	29,276
Dividends to shareholders						
Preferred shareholders (note 21)	–	–	(133)	–	–	(133)
Common shareholders	–	–	(1,559)	–	–	(1,559)
Shares exercised and issued under share-based payment plans (note 20)	39	(36)	–	–	31	34
Share-based payment plans expense	–	37	–	–	–	37
Equity settlement of Putnam share-based plans	–	–	–	–	(33)	(33)
Shares purchased and cancelled under Substantial Issuer Bid (note 20)	(2,000)	–	–	–	–	(2,000)
Excess of redemption proceeds over stated capital per Substantial Issuer Bid (note 20)	1,628	–	(1,628)	–	–	–
Common share carrying value adjustment per Substantial Issuer Bid (note 20)	(1,304)	–	1,304	–	–	–
Substantial Issuer Bid transaction costs (note 20)	–	–	(3)	–	–	(3)
Shares purchased and cancelled under Normal Course Issuer Bid (note 20)	(66)	–	–	–	–	(66)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 20)	53	–	(53)	–	–	–
Shares cancelled under Putnam share-based plans	–	35	–	–	(45)	(10)
Dilution gain on non-controlling interests	–	–	7	–	(7)	–
Balance, end of year	**$ 8,347**	**$ 175**	**$ 13,660**	**$ 495**	**$ 2,866**	**$ 25,543**

	December 31, 2018					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	$ 9,974	$ 143	$ 12,098	$ 386	$ 2,935	$ 25,536
Change in accounting policy	–	–	(64)	–	–	(64)
Revised balance, beginning of year	9,974	143	12,034	386	2,935	25,472
Net earnings (loss)	–	–	3,094	–	(19)	3,075
Other comprehensive income (loss)	–	–	–	659	(27)	632
	9,974	143	15,128	1,045	2,889	29,179
Dividends to shareholders						
Preferred shareholders (note 21)	–	–	(133)	–	–	(133)
Common shareholders	–	–	(1,538)	–	–	(1,538)
Shares exercised and issued under share-based payment plans (note 20)	39	(42)	–	–	37	34
Share-based payment plans expense	–	38	–	–	–	38
Equity settlement of Putnam share-based plans	–	–	–	–	(58)	(58)
Shares purchased and cancelled under Normal Course Issuer Bid (note 20)	(69)	–	–	–	–	(69)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 20)	53	–	(53)	–	–	–
Acquisition of PanAgora non-controlling interest	–	–	(54)	–	(21)	(75)
Acquisition of Invesco non-controlling interest	–	–	–	–	20	20
Dilution loss on non-controlling interests	–	–	(8)	–	8	–
Balance, end of year	$ 9,997	$ 139	$ 13,342	$ 1,045	$ 2,875	$ 27,398

Consolidated Statements of Cash Flows

(in Canadian $ millions)

For the years ended December 31	2019	2018
Operations		
Earnings before income taxes	**$ 2,880**	$ 3,462
Income taxes paid, net of refunds received	**(235)**	(428)
Adjustments:		
Change in insurance and investment contract liabilities	**10,412**	(379)
Change in funds held by ceding insurers	**570**	663
Change in funds held under reinsurance contracts	**81**	(37)
Change in reinsurance assets	**(900)**	51
Changes in fair value through profit or loss	**(6,946)**	3,606
Other	**248**	(444)
	6,110	6,494
Financing Activities		
Issue of common shares (note 20)	**39**	39
Purchased and cancelled common shares (note 20)	**(2,066)**	(69)
Substantial issuer bid transaction costs (note 20)	**(3)**	–
Issue of debentures and senior notes (note 16)	**–**	1,512
Repayment of debentures (note 16)	**(232)**	(1,096)
Increase (decrease) in line of credit of subsidiary	**(28)**	19
Increase (decrease) in debentures and other debt instruments	**1**	(1)
Dividends paid on common shares	**(1,559)**	(1,538)
Dividends paid on preferred shares	**(133)**	(133)
	(3,981)	(1,267)
Investment Activities		
Bond sales and maturities	**25,155**	25,001
Mortgage loan repayments	**2,532**	2,808
Stock sales	**2,814**	2,939
Investment property sales	**5**	63
Change in loans to policyholders	**16**	(208)
Proceeds from assets held for sale	**–**	169
Business acquisitions, net of cash and cash equivalents acquired	**–**	(279)
Cash and cash equivalents related to transfer of business (note 4)	**(4)**	–
Cash and cash equivalents classified as held for sale (note 4)	**–**	(112)
Investment in bonds	**(25,087)**	(26,453)
Investment in mortgage loans	**(3,816)**	(4,246)
Investment in stocks	**(2,510)**	(4,102)
Investment in investment properties	**(644)**	(356)
	(1,539)	(4,776)
Effect of changes in exchange rates on cash and cash equivalents	**(130)**	166
Increase in cash and cash equivalents	**460**	617
Cash and cash equivalents, beginning of year	**4,168**	3,551
Cash and cash equivalents, end of year	**$ 4,628**	$ 4,168
Supplementary cash flow information		
Interest income received	**$ 5,112**	$ 5,345
Interest paid	**301**	282
Dividend income received	**299**	266

(in Canadian $ millions except per share amounts)

1. Corporate Information

Great-West Lifeco Inc. (Lifeco or the Company) is a publicly listed company (Toronto Stock Exchange: GWO), incorporated and domiciled in Canada. The registered address of the Company is 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3. Lifeco is a member of the Power Corporation of Canada group of companies and its direct parent is Power Financial Corporation (Power Financial).

Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States and Europe through its operating subsidiaries including The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A) and Putnam Investments, LLC (Putnam).

The consolidated financial statements (financial statements) of the Company as at and for the year ended December 31, 2019 were approved by the Board of Directors on February 12, 2020.

Subsequent Event

Effective January 1, 2020, Great-West Life, London Insurance Group Inc. (LIG), the direct parent of London Life, London Life, Canada Life Financial Corporation (CLFC), the direct parent of Canada Life, and Canada Life amalgamated (the Amalgamation) into one company: The Canada Life Assurance Company (the Amalgamated Company). The Amalgamated Company is a wholly-owned operating subsidiary of Lifeco (note 33).

2. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of the Company have been prepared in compliance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Consistent accounting policies were applied in the preparation of the consolidated financial statements of the subsidiaries of the Company.

Changes in Accounting Policies

Effective January 1, 2019, the Company applied International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments* (IFRIC 23). The interpretation clarifies how to apply the recognition and measurement requirements in International Accounting Standards (IAS) 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under IFRIC 23, a provision for tax uncertainties which meet the probable threshold for recognition is measured based on the amount most likely to occur. The provision for tax uncertainties will be classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. The application of the interpretation of the standard resulted in a decrease of $109 to opening accumulated surplus at January 1, 2019.

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* (IFRS 16) which replaces IAS 17, *Leases* (IAS 17). The standard prescribes new guidance for identifying leases as well as the accounting, measurement and presentation of leases by the lessee. Under IFRS 16, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date on the Consolidated Balance Sheets.

The Company has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 has not been restated. The comparative information remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to measure right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any lease related balances relating to that lease recognized on the Consolidated Balance Sheets immediately before the date of initial application. At January 1, 2019, right-of-use assets of $551 were recognized ($522 within other assets and $29 within investment properties) and lease liabilities of $551 were recognized within other liabilities. Lease related balances included within accounts payable on the Consolidated Balance Sheets at December 31, 2018 of $62 were reclassified to decrease right-of-use assets recognized to $489 at January 1, 2019. When measuring lease liabilities, the Company discounted lease payments using the lessee's incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 3.82%.

The following table reconciles the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	$ 900
Discounting using the incremental borrowing rate at January 1, 2019	(170)
Non-lease components included in operating lease commitments	(110)
Leases not yet commenced at January 1, 2019 included in operating lease commitments	(57)
Short-term leases included in operating lease commitments	(6)
Low-value leases included in operating lease commitments	(6)
Lease liabilities recognized at January 1, 2019	**$ 551**

The Company adopted the narrow scope amendments to IFRS for IAS 28, *Investments in Associates and Joint Ventures*, IAS 19, *Employee Benefits*, and *Annual Improvements 2015 – 2017 Cycle* for the amendments to IFRS 3, *Business Combinations*, IFRS 11, *Joint Arrangements*, IAS 12, *Income Taxes* and IAS 23, *Borrowing Costs*, effective January 1, 2019. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

Basis of Consolidation

The consolidated financial statements of the Company were prepared as at and for the year ended December 31, 2019 with comparative information as at and for the year ended December 31, 2018. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The Company has control when it has the power to direct the relevant activities, has significant exposure to variable returns from these activities and has the ability to use its power to affect the variable returns. All intercompany balances, transactions, income and expenses and profits or losses, including dividends resulting from intercompany transactions, are eliminated on consolidation.

Use of Significant Judgments, Estimates and Assumptions

In preparation of these consolidated financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these consolidated financial statements including:

- Management uses judgment in determining the assets and liabilities to be included in a disposal group. The Company uses estimates in the determination of the fair value for disposal groups (note 4).
- Management uses independent qualified appraisal services to determine the fair value of investment properties, which utilize judgments and estimates. These appraisals are adjusted by applying management judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions (note 7).
- Management uses internal valuation models which utilize judgments and estimates to determine the fair value of equity release mortgages. These valuations are adjusted by applying management judgments and estimates for material changes in projected asset cash flows, and discount rates (note 7).
- In the determination of the fair value of financial instruments, the Company's management exercises judgment in the determination of fair value inputs, particularly those items categorized within level 3 of the fair value hierarchy (note 10).
- Cash generating unit groupings for goodwill and indefinite life intangible assets have been determined by management as the lowest level that the assets are monitored for internal reporting purposes, which requires management judgment in the determination of the lowest level of monitoring (note 11).
- Management evaluates the future benefit for initial recognition and measurement of goodwill and intangible assets as well as testing the recoverable amounts. The determination of the carrying value and recoverable amounts of the cash generating unit groupings for goodwill and intangible assets relies upon the determination of fair value or value-in-use using valuation methodologies (note 11).
- Judgments are used by management in determining whether deferred acquisition costs and deferred income reserves can be recognized on the Consolidated Balance Sheets. Deferred acquisition costs are recognized if management determines the costs meet the definition of an asset and are incremental and related to the issuance of the investment contract. Deferred income reserves are amortized on a straight-line basis over the term of the policy (notes 13 and 18).
- Management uses judgment to evaluate the classification of insurance and reinsurance contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.
- The actuarial assumptions, such as interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders, used in the valuation of insurance and certain investment contract liabilities under the Canadian Asset Liability Method require significant judgment and estimation (note 14).
- The actuarial assumptions used in determining the expense and benefit obligations for the Company's defined benefit pension plans and other post-employment benefits requires significant judgment and estimation. Management reviews previous experience of its plan members and market conditions including interest rates and inflation rates in evaluating the assumptions used in determining the expense for the current year (note 24).
- The Company operates within various tax jurisdictions where significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Company's tax provisions and the carrying amounts of its tax assets and liabilities (note 27).
- Management applies judgment in assessing the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections (note 27).
- Legal and other provisions are recognized resulting from a past event which, in the judgment of management, has resulted in a probable outflow of economic resources which would be passed to a third-party to settle the obligation. Management uses judgment to evaluate the possible outcomes and risks in determining the best estimate of the provision at the balance sheet date (note 30).
- The operating segments of the Company, which are the segments reviewed by the Company's Chief Executive Officer to assess performance and allocate resources within the Company, are aligned with the Company's geographic operations. Management applies judgment in the aggregation of the business units into the Company's operating segments (note 32).
- The Company consolidates all subsidiaries and entities which management determines that the Company controls. Control is evaluated on the ability of the Company to direct the activities of the subsidiary or entity to derive variable returns and management uses judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Company has the ability to exercise its power to generate variable returns.

- Management uses judgments, such as the determination of whether the Company retains the primary obligation with a client in sub-advisor arrangements. Where the Company retains the primary obligation to the client, revenue and expenses are recorded on a gross basis.
- Within the Consolidated Statements of Cash Flows, purchases and sales of portfolio investments are recorded within investment activities due to management's judgment that these investing activities are long-term in nature.
- The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The provision for future credit losses within the Company's insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use third-party independent credit ratings where available. Management judgment is required when setting credit ratings for instruments that do not have a third-party rating.

The significant accounting policies are as follows:

(a) Portfolio Investments

Portfolio investments include bonds, mortgage loans, stocks and investment properties. Portfolio investments are classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, equity-method investments or as non-financial instruments based on management's intention relating to the purpose and nature of the instrument or characteristics of the investment. The Company has not classified any investments as held-to-maturity.

Investments in bonds and stocks normally actively traded on a public market or where fair value can be reliably measured are either designated or classified as fair value through profit or loss or classified as available-for-sale on a trade date basis. Equity release mortgages are designated as fair value through profit or loss. A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. Changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities. A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income. Fair value through profit or loss investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings. Available-for-sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses on available-for-sale investments are reclassified from other comprehensive income and recorded in the Consolidated Statements of Earnings when the investment is sold. Interest income earned on both fair value through profit or loss and available-for-sale bonds is calculated using the effective interest method and is recorded as net investment income in the Consolidated Statements of Earnings.

Investments in stocks where a fair value cannot be measured reliably are classified as available-for-sale and carried at cost. Investments in stocks for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting. Investments in stocks over which the Company exerts significant influence but does not control include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial group of companies.

Investments in mortgages and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Consolidated Statements of Earnings and included in net investment income.

Investment properties are real estate held to earn rental income or for capital appreciation. Investment properties are initially measured at cost and subsequently carried at fair value on the Consolidated Balance Sheets. All changes in fair value are recorded as net investment income in the Consolidated Statements of Earnings. Properties held to earn rental income or for capital appreciation that have an insignificant portion that is owner occupied or where there is no intent to occupy on a long-term basis are classified as investment properties. Properties that do not meet these criteria are classified as owner occupied properties. Property that is leased that would otherwise be classified as investment property if owned by the Company is also included within investment properties.

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded within the market pricing methods that the Company relies upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance and investment contract liabilities are largely offset by corresponding changes in the fair value of liabilities except when the bond has been deemed impaired.

The following is a description of the methodologies used to value instruments carried at fair value:

Bonds – Fair Value Through Profit or Loss and Available-for-Sale

Fair values for bonds classified and designated as fair value through profit or loss or available-for-sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. Where prices are not quoted in an active market, fair values are determined by valuation models. The Company maximizes the use of observable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure bonds at fair value in its fair value through profit or loss and available-for-sale portfolios.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

The Company estimates the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as, yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Bonds and Mortgages – Loans and Receivables

For disclosure purposes only, fair values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates for similar instruments. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

Equity Release Mortgages – Fair Value Through Profit or Loss

There are no market observable prices for equity release mortgages; therefore an internal valuation model is used discounting expected future cash flows and includes consideration of the embedded no-negative equity guarantee. Inputs to the model include market observable inputs such as benchmark yields and risk-adjusted spreads. Non market observable inputs include property growth and volatility rates, expected rates of voluntary redemptions, death, moving to long term care and interest cessation assumptions and the value of the no negative equity guarantee.

Stocks – Fair Value Through Profit or Loss and Available-for-Sale

Fair values for stocks traded on an active market are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market is typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movement relative to the market and utilization of information provided by the underlying investment manager. The Company maximizes the use of observable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure stocks at fair value in its fair value through profit or loss and available-for-sale portfolios.

Investment Properties

Fair values for investment properties are determined using independent qualified appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment property requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment property under construction is valued at fair value if such values can be reliably determined; otherwise they are recorded at cost.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is objective evidence that timely collection of future cash flows can no longer be reliably estimated. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset; however, market price is taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the net realizable value. For impaired available-for-sale bonds recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are recorded in net investment income, therefore, in the event of an impairment, the reduction will be recorded in net investment income.

Securities Lending

The Company engages in securities lending through its securities custodians as lending agents. Loaned securities are not derecognized, and continue to be reported within invested assets, as the Company retains substantial risks and rewards and economic benefits related to the loaned securities.

(b) Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified as fair value through profit or loss. Transaction costs for financial assets classified as available-for-sale or loans and receivables are added to the value of the instrument at acquisition and taken into net earnings using the effective interest method. Transaction costs for financial liabilities classified as other than fair value through profit or loss are included in the value of the instrument issued and taken into net earnings using the effective interest method.

(c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, current operating accounts, overnight bank and term deposits with maturities of three months or less held for the purpose of meeting short-term cash requirements. Net payments in transit and overdraft bank balances are included in other liabilities.

(d) Trading Account Assets

Trading account assets consist of investments in sponsored funds, open ended investment companies and sponsored unit-trusts, which are carried at fair value based on the net asset value of these funds. Investments in these assets are included in other assets on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings.

(e) Debentures and Other Debt Instruments and Capital Trust Securities

Debentures and other debt instruments and capital trust securities are initially recorded on the Consolidated Balance Sheets at fair value and subsequently carried at amortized cost using the effective interest method with amortization expense recorded in financing charges in the Consolidated Statements of Earnings. These liabilities are derecognized when the obligation is cancelled or redeemed.

(f) Other Assets and Other Liabilities

Other assets, which include prepaid expenses, deferred acquisition costs, finance leases receivable, right-of-use assets and miscellaneous other assets, are measured at cost or amortized cost. Other liabilities, which include deferred income reserves, bank overdraft, lease liabilities and other miscellaneous liabilities are measured at cost or amortized cost.

Provisions are recognized within other liabilities when the Company has a present obligation, either legal or constructive, resulting from a past event, and in management's judgment, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount. The amount recognized for provisions are management's best estimate at the balance sheet date. The Company recognizes a provision for restructuring when a detailed formal plan for the restructuring has been established and that the plan has raised a valid expectation in those affected that the restructuring will occur.

Pension and other post-employment benefits also included within other assets and other liabilities are measured in accordance with note 2(x).

(g) Disposal Group Classified As Held For Sale

Disposal groups are classified as held for sale when the carrying amount will be recovered through a sale transaction rather than continuing use. The fair value of a disposal group is measured at the lower of its carrying amount and fair value less costs to sell. Individual assets and liabilities in a disposal group not subject to these measurement requirements include financial assets, investment properties and insurance contract liabilities. These assets and liabilities are measured in accordance with the relevant accounting policies described for those assets and liabilities included in this note before the disposal group as a whole is measured to the lower of its carrying amount and fair value less cost to sell. Any impairment loss for the disposal group is recognized as a reduction to the carrying amount for the portion of the disposal group under the measurement requirements for IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*.

Disposal group assets and liabilities classified as held for sale are presented separately on the Company's Consolidated Balance Sheets. Gains and losses from disposal groups held for sale are presented separately in the Company's Consolidated Statements of Earnings.

(h) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including fee and investment income. The Company's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

The Company includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent in note 29 as prescribed by the Office of the Superintendent of Financial Institutions (OSFI) in Canada.

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income in the Consolidated Statements of Earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

Derivatives are valued using market transactions and other market evidence whenever possible, including market based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently as if there was no hedging relationship.

Where a hedging relationship exists, the Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the Consolidated Balance Sheets or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

Fair value hedges

For fair value hedges, changes in fair value of both the hedging instrument and the hedged risk are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

The Company currently uses foreign exchange forward contracts designated as fair value hedges.

Cash flow hedges

For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument is recorded in the same manner as the hedged item while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The Company currently uses interest rate swaps designated as cash flow hedges.

Net investment hedges

For net investment hedges, the effective portion of changes in the fair value of the hedging instrument are recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. The unrealized foreign exchange gains (losses) on the instruments are recorded within accumulated other comprehensive income and will be reclassified into net earnings when the Company disposes of the foreign operation.

The Company currently uses foreign exchange forward contracts and debt instruments designated as net investment hedges.

(i) Embedded Derivatives

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Embedded derivatives are treated as separate contracts and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through the Consolidated Statements of Earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

(j) Foreign Currency Translation

The Company operates with multiple functional currencies. The Company's consolidated financial statements are presented in Canadian dollars as this presentation is most meaningful to financial statement users. For those subsidiaries with different functional currencies, exchange rate differences arising from the translation of monetary items that form part of the net investment in the foreign operation are recorded in unrealized foreign exchange gains (losses) on translation of foreign operations in other comprehensive income.

For the purpose of presenting consolidated financial statements, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on translation of the Company's net investment in its foreign operations are presented separately as a component of other comprehensive income. Unrealized gains and losses will be recognized proportionately in net investment income in the Consolidated Statements of Earnings when there has been a disposal of the investment in the foreign operations.

Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income.

(k) Loans to Policyholders

Loans to policyholders are classified as loans and receivables and measured at amortized cost. Loans to policyholders are shown at their unpaid principal balance and are fully secured by the cash surrender values of the policies. Carrying value of loans to policyholders approximates their fair value.

(l) Reinsurance Contracts

The Company, in the normal course of business, is a user of reinsurance in order to limit the potential for losses arising from certain exposures and a provider of reinsurance. Assumed reinsurance refers to the acceptance of certain insurance risks by the Company underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Reinsurance contracts are insurance contracts and undergo the classification as described within the Insurance and Investment Contract Liabilities section of this note. Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. The Company considers various factors in the impairment evaluation process, including but not limited to, collectability of amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the Consolidated Statements of Earnings.

Any gains or losses on buying reinsurance are recognized in the Consolidated Statements of Earnings immediately at the date of purchase in accordance with the Canadian Asset Liability Method.

Assets and liabilities related to reinsurance are reported on a gross basis on the Consolidated Balance Sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

(m) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

On the asset side, funds held by ceding insurers are assets that would normally be paid to the Company but are withheld by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds withheld basis supporting the insurance or investment contract liabilities ceded. For the funds withheld assets where the underlying asset portfolio is managed by the Company, the credit risk is retained by the Company. The funds withheld balance where the Company assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See note 8 for funds held by ceding insurers that are managed by the Company. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

On the liability side, funds held under reinsurance contracts consist mainly of amounts retained by the Company from ceded business written on a funds withheld basis. The Company withholds assets related to ceded insurance contract liabilities in order to reduce credit risk.

(n) Business Combinations, Goodwill and Intangible Assets

Business combinations are accounted for using the acquisition method. The Company identifies and classifies, in accordance with the Company's accounting policies, all assets acquired and liabilities assumed as at the acquisition date. Goodwill represents the excess of purchase consideration over the fair value of net assets of the acquired subsidiaries of the Company. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company and software acquired or internally developed by the Company. Finite life intangible assets include the value of technology/software, certain customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, typically ranging between 3 and 30 years.

Indefinite life intangible assets include brands and trademarks, certain customer contracts and the shareholders' portion of acquired future participating account profits. Amounts are classified as indefinite life intangible assets when based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company. The identification of indefinite life intangible assets is made by reference to relevant factors such as product life cycles, potential obsolescence, industry stability and competitive position. Following initial recognition, indefinite life intangible assets are measured at cost less accumulated impairment losses.

Impairment Testing

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Company would be required to reverse the impairment loss or a portion thereof.

Goodwill and indefinite life intangible assets have been allocated to cash generating unit groupings, representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each cash generating unit grouping containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

Finite life intangible assets are reviewed annually to determine if there are indicators of impairment and assess whether the amortization periods and methods are appropriate. If indicators of impairment have been identified, a test for impairment is performed and then the amortization of these assets is adjusted or impairment is recognized as necessary.

(o) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured.

Interest income on bonds and mortgages is recognized and accrued using the effective interest method.

Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed stocks, and usually the notification date or date when the shareholders have approved the dividend for private equity instruments.

Investment property income includes rents earned from tenants under lease agreements and property tax and operating cost recoveries. Rental income leases with contractual rent increases and rent-free periods are recognized on a straight-line basis over the term of the lease.

Fee income includes fees earned from management of segregated fund assets, proprietary mutual fund assets, record-keeping, fees earned on administrative services only Group health contracts, commissions and fees earned from management services. Fee and other income is recognized on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

The Company has sub-advisor arrangements where the Company retains the primary obligation with the client; as a result, fee income earned is reported on a gross basis with the corresponding sub-advisor expense recorded in operating and administrative expenses.

(p) Owner Occupied Properties and Fixed Assets

Property held for own use and fixed assets are carried at cost less accumulated depreciation, disposals and impairments. Depreciation is expensed to write-off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Owner occupied properties	15 – 20 years
Furniture and fixtures	5 – 10 years
Other fixed assets	3 – 10 years

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary.

(q) Deferred Acquisition Costs

Included in other assets are deferred acquisition costs relating to investment contracts. These are recognized as assets if the costs are incremental and incurred due to the contract being issued and are primarily amortized on a straight-line basis over the policy term, not to exceed 20 years.

(r) Segregated Funds

Segregated funds assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately on the Consolidated Balance Sheets. The assets and liabilities are set equal to the fair value of the underlying asset portfolio. Investment income and changes in fair value of the segregated fund assets are offset by a corresponding change in the segregated fund liabilities.

(s) Insurance and Investment Contract Liabilities

Contract Classification

When significant insurance risk exists, the Company's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Refer to note 14 for discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition & Measurement*. The Company has not classified any contracts as investment contracts with discretionary participating features.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to note 9 for discussion of Financial Instruments Risk Management.

Measurement

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of mis-estimation and/for future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

(t) Deferred Income Reserves

Included in other liabilities are deferred income reserves relating to investment contracts. These are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not to exceed 20 years.

(u) Income Taxes

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or income in profit or loss except to the extent that it relates to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized outside profit or loss.

Current Income Tax

Current income tax is based on taxable income for the year. Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates that have been enacted or substantively enacted at the balance sheet date in each respective jurisdiction. Current income tax assets and current income tax liabilities are offset if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

A provision for tax treatment uncertainties which meet the probable threshold for recognition is measured using either the most likely amount or the expected value, depending upon which method provides the better prediction of the resolution of the uncertainty. The provision for tax uncertainties will be classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date.

Deferred Income Tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and carryforwards can be utilized.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets. The Company's annual financial planning process provides a significant basis for the measurement of deferred income tax assets.

Deferred income tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to net current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the group controls the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

(v) Policyholder Benefits

Policyholder benefits include benefits and claims on life insurance contracts, maturity payments, annuity payments and surrenders. Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

(w) Repurchase Agreements

The Company accounts for certain forward settling to be announced security transactions as derivatives as the Company does not regularly accept delivery of such securities when issued.

(x) Pension Plans and Other Post-Employment Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents.

The present value of the defined benefit obligations and the related current service cost is determined using the projected unit credit method (note 24). Pension plan assets are recorded at fair value.

For the defined benefit plans of the Company's subsidiaries, service costs and net interest costs are recognized in the Consolidated Statements of Earnings. Service costs include current service cost, administration expenses, past service costs and the impact of curtailments and settlements. To determine the net interest costs (income) recognized in the Consolidated Statements of Earnings, the Company's subsidiaries apply a discount rate to the net benefit liability (asset), where the discount rate is determined by reference to market yields at the beginning of the year on high quality corporate bonds.

For the defined benefit plans of the Company's subsidiaries, re-measurements of the net defined benefit liability (asset) due to asset returns less (greater) than interest income, actuarial losses (gains) and changes in the asset ceiling are recognized in the Consolidated Statements of Comprehensive Income.

The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors. For the defined contribution plans of the Company's subsidiaries, the current service costs are recognized in the Consolidated Statements of Earnings.

(y) Equity

Financial instruments issued by the Company are classified as share capital if they represent a residual interest in the assets of the Company. Preferred share capital is classified as equity if it is non-redeemable, or retractable only at the Company's option and any dividends are discretionary. Incremental costs that are directly attributable to the issue of share capital are recognized as a deduction from equity, net of income tax.

Contributed surplus represents the vesting expense on unexercised equity instruments under share-based payment plans.

Accumulated other comprehensive income (loss) represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the unrealized foreign exchange gains (losses) on euro debt designated as a hedge of the net investment of foreign operations, the unrealized gains (losses) on available-for-sale assets, the unrealized gains (losses) on cash flow hedges, and the re-measurements on defined benefit pension and other post-employment benefit plans net of tax, where applicable.

Non-controlling interests in subsidiaries represents the proportion of equity that is attributable to minority shareholders.

Participating account surplus in subsidiaries represents the proportion of equity attributable to the participating account of the Company's subsidiaries.

(z) Share-Based Payments

The Company provides share-based compensation to certain employees and Directors of the Company and its subsidiaries.

The Company follows the fair value based method of accounting for the valuation of compensation expense for shares and share options granted to employees under its stock option plans (note 23). This share-based payment expense is recognized in operating and administrative expenses in the Consolidated Statements of Earnings and as an increase to contributed surplus over the vesting period of the granted options. When options are exercised, the proceeds received, along with the amount in contributed surplus, are transferred to share capital.

The Company and certain of its subsidiaries have established Deferred Share Unit Plans (DSU Plans) in which the Directors of the Company participate. Units issued under the DSU Plans vest when granted. The Company recognizes an increase in operating and administrative expenses for the units granted under the DSU Plans. The Company recognizes a liability for units granted under the DSU Plans which is re-measured at each reporting period based on the market value of the Company's common shares.

Certain employees of the Company are entitled to participate in the Performance Share Unit Plan (PSU Plan). Units issued under the Performance Share Unit Plan vest over a three year period. The Company uses the fair value method to recognize compensation expense for the units granted under the plan over the vesting period with a corresponding increase in the liability based on the market value of the Company's common shares.

The Company has an Employee Share Ownership Program (ESOP) where, subject to certain conditions being met, the Company will match contributions up to a maximum amount. The Company's contributions are expensed within operating and administrative expenses as incurred.

(aa) Earnings Per Common Share

Earnings per common share is calculated using net earnings after preferred share dividends and the weighted average number of common shares outstanding. Diluted earnings per share is calculated by adjusting common shareholders' net earnings and the weighted average number of common shares outstanding for the effects of all potential dilutive common shares assuming that all convertible instruments are converted and outstanding options are exercised.

(ab) Leases

Effective January 1, 2019, the Company adopted IFRS 16 which replaces IAS 17. The Company has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 has not been restated. The comparative information remains as previously reported under IAS 17 and related interpretations.

Where the Company is the lessee, a right-of-use asset and a lease liability are recognized on the Consolidated Balance Sheets as at the lease commencement date.

Right-of-use assets are initially measured based on the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. Right-of-use assets are included within other assets with the exception of right-of-use assets which meet the definition of investment property which are presented within investment properties and subject to the Company's associated accounting policy. Right-of-use assets presented within other assets are depreciated to the earlier of the useful life of the right-of-use asset or the lease term using the straight-line method. Depreciation expense on right-of-use assets is included within operating and administrative expenses.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company shall use the lessee's incremental borrowing rate. Generally, the Company uses the lessee's incremental borrowing rate as its discount rate. The lease liability is measured at amortized cost using the effective interest method and is included within other liabilities. Interest expense on lease liabilities is included within operating and administrative expenses.

The Company has elected to apply a practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

For the information presented for 2018, leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Company is the lessee, are charged to net earnings over the period of use.

Where the Company is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the Consolidated Balance Sheets. Income from these leases is recognized in the Consolidated Statements of Earnings on a straight-line basis over the lease term.

Investments in a lease that transfers substantially all the risks and rewards of ownership to the lessee are classified as a finance lease. The Company is the lessor under a finance lease and the investment is recognized as a receivable at an amount equal to the net investment in the lease, which is represented as the present value of the minimum lease payments due from the lessee and is presented within the Consolidated Balance Sheets. Payments received from the lessee are apportioned between the recognition of finance lease income and the reduction of the finance lease receivable. Income from the finance leases is recognized in the Consolidated Statements of Earnings at a constant periodic rate of return on the Company's net investment in the finance lease.

(ac) Operating Segments

Operating segments have been identified based on internal reports that are regularly reviewed by the Company's Chief Executive Officer to allocate resources and assess performance of segments. The Company's reportable operating segments are categorized by geographic region and include Canada, the United States and Europe. The Canada segment comprises the Individual Customer and Group Customer business units. GWL&A and Putnam are reported in the United States segment. The Europe segment comprises Insurance & Annuities and Reinsurance. The Lifeco Corporate segment represents activities and transactions that are not directly attributable to the measurement of the operating segments of the Company.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

(ad) Future Accounting Policies

Standard	Summary of Future Changes
IFRS 17 – *Insurance Contracts*	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard by one year to January 1, 2022. In addition, the IASB extended to January 1, 2022 the exemption for insurers to apply the financial instruments standard, IFRS 9 – *Financial Instruments*, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period on the exposure draft, the IASB is considering a deferral beyond January 1, 2022 for the effective date of IFRS 17. The IASB has confirmed certain amendments proposed in the exposure draft – namely the amendment on the expected recovery of insurance acquisition cash flows and has also agreed to extend the scope of the amendment related to the recovery of losses on reinsurance contracts to apply to all reinsurance held contracts. The adoption of IFRS 17 is a significant initiative for the Company supported by a formal governance framework and project plan, for which substantial resources are being dedicated. The Company has assembled a project team that is working on implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. These groups are also monitoring developments from the IASB and various industry groups that the Company has representation on. The Company has made progress in implementing its project plan, with key policy decisions well-advanced as well as progression on the implementation of the technology solution. The Company continues to evaluate the readiness of technology vendors and their ability to deliver for IFRS 17 implementation. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows – the current estimates of amounts that a company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin – the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfillment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the Canadian Asset Liability Method, where the discount rate was based on the yield curves of the assets supporting those liabilities (refer to the Company's significant accounting policies in note 2 of these financial statements). The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance coverage is provided. IFRS 17 also requires the Company to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. The Company is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, the Company expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the Consolidated Statements of Earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the consolidated financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. The Company is also actively monitoring potential impacts on regulatory capital and the associated ratios and disclosures. The Company continues to assess all these impacts through its global implementation plan.
IFRS 9 – *Financial Instruments*	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments* (IFRS 9) to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides changes to financial instruments accounting for the following: • classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; • impairment based on an expected loss model; and • hedge accounting that incorporates the risk management practices of an entity. In September 2016, the IASB issued an amendment to IFRS 4, *Insurance Contracts* (IFRS 4). The amendment "Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: • *Deferral Approach* – provides the option to defer implementation of IFRS 9 until the year 2022 or the effective date of the new insurance contract standard, whichever is earlier; or • *Overlay Approach* – provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Company qualifies for the amendment and is applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17 simultaneously. The disclosure for the measurement and classification of the Company's portfolio investments provides most of the information required by IFRS 9. The Company continues to evaluate the impact for the adoption of this standard with the adoption of IFRS 17.

Standard	Summary of Future Changes
IFRS 3 – *Business Combinations*	In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. The amendments will be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.
IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*	In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments are to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.
IFRS 9 – *Financial Instruments,* IAS 39 – *Financial Instruments: Recognition and Measurement* and IFRS 7 – *Financial Instruments: Disclosures*	In September 2019, the IASB issued amendments to IFRS 9, *Financial Instruments,* IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective January 1, 2020. Although adoption of these amendments will not have a significant impact on the Company's consolidated financial statements, additional disclosures will be required.

3. Business Acquisitions and Other Transactions

(a) U.S. Individual Life Insurance and Annuity Business Reinsurance Agreement

On January 24, 2019, GWL&A announced that it had entered into an agreement with Protective Life Insurance Company (Protective Life) to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business in its United States segment. The transaction was completed on June 1, 2019. The Consolidated Balance Sheets were impacted by the transfer of $15,511 of invested assets to Protective Life (note 7), recognition of $15,230 of reinsurance assets (note 14) and $985 of cash received as a result of the transaction. Within the Consolidated Statements of Earnings, the Company recognized increases of $13,889 to ceded premiums, $1,080 to fee and other income, $219 to total net investment income (note 7) and $120 to operating and administrative expenses (note 28), as well as a decrease of $12,463 to total paid or credited to policyholders.

In the second quarter of 2019, the Company recognized a loss related to this transaction of $247 ($199 after-tax) (note 32), which included transaction costs of $80 ($63 after-tax) and $45 ($36 after-tax) due to updated expense assumptions primarily related to stranded overhead. The liabilities transferred and ceding commission received at the closing of this transaction are subject to future adjustments. In October 2019, Protective Life provided the Company with its listing of proposed adjustments with respect to the liabilities transferred. In December 2019, the Company formally objected to these proposed adjustments. The Master Transaction Agreement requires the parties to attempt to resolve these differences in an informal manner and that process is ongoing. Based on the information presently known, it is difficult to predict the outcome of this matter with certainty, but this matter is not expected to materially impact the consolidated financial position of the Company.

(b) Invesco Ltd. (Ireland)

On August 1, 2018, the Company, through its indirect wholly-owned subsidiary Irish Life Group Limited (Irish Life), completed its agreement to acquire a controlling interest in Invesco Ltd. (Ireland), an independent financial consultancy firm in Ireland that specializes in employee benefit consultancy and private wealth management who manages and administers assets on behalf of clients.

During the second quarter of 2019, the comprehensive valuation of the fair value of the net assets acquired, including intangible assets and completion of the final purchase price allocation, was finalized with no significant adjustment to goodwill. Revenue and net earnings of Invesco Ltd. (Ireland) were not significant to the results of the Company.

4. Assets Held For Sale

Sale of policies to Scottish Friendly

On June 21, 2018, Canada Life Limited, an indirect wholly-owned subsidiary of the Company, announced an agreement to sell a heritage block of individual policies to Scottish Friendly of $4,216, comprised of unit-linked policies of $3,319 and non unit-linked policies of $897. The initial composition of the assets and liabilities of the disposal group classified as assets held for sale as at December 31, 2018 are as follows:

Assets	
Cash and cash equivalents	$ 112
Bonds	731
Stocks	22
Investment properties	29
Loans to policyholders	3
Assets held for sale	897
Investments on account of segregated fund policyholders	3,319
Total assets included in disposal group classified as held for sale	$ 4,216
Liabilities	
Insurance contract liabilities	$ 870
Investment contract liabilities	27
Liabilities held for sale	897
Investment and insurance contracts on account of segregated fund policyholders	3,319
Total liabilities included in disposal group classified as held for sale	$ 4,216

On October 22, 2019, the required court approval for the transfer of these policies was received. The transfer of these policies occurred, effective November 1, 2019, as part of the United Kingdom Business Transformation (note 5).

Net earnings from the disposal of these policies will be finalized in the first half of 2020 and are not expected to be material to the consolidated financial statements.

5. Restructuring

Putnam Restructuring

In 2019, Putnam recorded a restructuring provision of $52 pre-tax ($36 after-tax), which is recorded in restructuring expenses in the Consolidated Statements of Earnings. This restructuring is in respect of expense reductions and a realignment of its resources to best position itself for current and future opportunities. The expense reductions will be achieved through a reduction in staff, consolidation of certain mutual funds, digital technology modernization and facilities downsizing. The Company expects to pay out a significant portion of these remaining amounts during 2020.

At December 31, 2019, the Company has a restructuring provision of $37 remaining in other liabilities. The change in the restructuring provision for the Putnam restructuring is set out below:

Balance, beginning of year	**$ –**
Restructuring expenses	**52**
Amounts used	**(15)**
Balance, end of year	**$ 37**

United Kingdom Business Transformation

In 2018, the Company recorded a restructuring provision in the European segment of $67 pre-tax ($56 after-tax) in the common shareholder's account. This restructuring is in respect of activities aimed at achieving planned expense reductions and an organizational realignment. The expense reductions will be achieved through decommissioning of systems, reduction in staff and other costs as a result of integrating Retirement Advantage into Canada Life along with the sale of a heritage block of individual policies to Scottish Friendly.

At December 31, 2019, the Company has a restructuring provision of $39 remaining in other liabilities. The change in the restructuring provision for the United Kingdom Business Transformation is set out below:

	2019	2018
Balance, beginning of year	**$ 61**	$ –
Restructuring expenses	**–**	67
Amounts used	**(21)**	(8)
Changes in foreign exchange rates	**(1)**	2
Balance, end of year	**$ 39**	$ 61

6. Cash and Cash Equivalents

Cash and cash equivalents include amounts held at the Lifeco holding company level and amounts held in Lifeco's consolidated subsidiary companies.

	2019	2018
Cash	$ 2,860	$ 2,527
Short-term deposits	1,768	1,641
Total	$ 4,628	$ 4,168

At December 31, 2019, cash of $574 was restricted for use by the Company ($339 at December 31, 2018) in respect of cash held in trust for reinsurance agreements or with regulatory authorities, cash held under certain indemnity arrangements, client monies held by brokers and cash held in escrow.

7. Portfolio Investments

(a) Carrying values and estimated fair values of portfolio investments are as follows:

	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss [1]	$ 84,229	$ 84,229	$ 90,015	$ 90,015
Classified fair value through profit or loss [1]	1,717	1,717	1,886	1,886
Available-for-sale	11,710	11,710	13,239	13,239
Loans and receivables	17,372	19,344	19,722	20,619
	115,028	117,000	124,862	125,759
Mortgage loans				
Residential				
Designated fair value through profit or loss [1]	1,314	1,314	813	813
Loans and receivables	9,073	9,347	9,721	9,808
	10,387	10,661	10,534	10,621
Commercial	13,881	14,485	14,480	14,790
	24,268	25,146	25,014	25,411
Stocks				
Designated fair value through profit or loss [1]	9,752	9,752	8,658	8,658
Available-for-sale	16	16	11	11
Available-for-sale, at cost [2]	189	189	267	267
Equity method	418	410	354	293
	10,375	10,367	9,290	9,229
Investment properties	5,887	5,887	5,218	5,218
Total [3]	$ 155,558	$ 158,400	$ 164,384	$ 165,617

(1) A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. Changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

(2) Fair value cannot be reliably measured, therefore the investments are held at cost.

(3) As a result of the reinsurance transaction with Protective Life (note 3), invested assets were transferred.

7. Portfolio Investments (cont'd)

(b) Carrying value of bonds and mortgages by term to maturity are as follows:

	2019			
	Term to maturity			
	1 year or less	Over 1 year to 5 years	Over 5 years	Total
Bonds	$ 12,142	$ 25,989	$ 76,860	$ 114,991
Mortgage loans [1]	941	8,180	15,118	24,239
Total	$ 13,083	$ 34,169	$ 91,978	$ 139,230

	2018			
	Term to maturity			
	1 year or less	Over 1 year to 5 years	Over 5 years	Total
Bonds	$ 11,642	$ 28,196	$ 84,822	$ 124,660
Mortgage loans [1]	969	7,928	16,093	24,990
Total	$ 12,611	$ 36,124	$ 100,915	$ 149,650

(1) Mortgage loans include equity release mortgages which do not have a fixed redemption date. The maturity profile of the portfolio has therefore been estimated based on previous redemption experience.

The above excludes the carrying value of impaired bonds and mortgage loans, as the ultimate timing of collectability is uncertain.

(c) Certain stocks where equity method earnings are computed are discussed below:

The majority of the Company's equity method investments relate to the Company's investment, held through Great-West Life, in an affiliated company, IGM, a member of the Power Financial group of companies, over which it exerts significant influence but does not control. The Company's proportionate share of IGM's earnings is recorded in net investment income in the Consolidated Statements of Earnings. The Company owns 9,200,505 shares of IGM at December 31, 2019 (9,200,548 at December 31, 2018) representing a 3.86% ownership interest (3.82% at December 31, 2018). The Company uses the equity method to account for its investment in IGM as it exercises significant influence. Significant influence arises from several factors, including, but not limited to the following: common control of the Company and IGM by Power Financial, shared representation on the Boards of Directors of the Company and IGM, interchange of managerial personnel, and certain shared strategic alliances, significant intercompany transactions and service agreements that influence the financial and operating policies of both companies.

	2019	2018
Carrying value, beginning of year	$ 346	$ 362
Equity method share of IGM net earnings	25	26
De-recognition of certain deferred sales commissions	–	(21)
Dividends received	(21)	(21)
Carrying value, end of year	$ 350	$ 346
Share of equity, end of year	$ 171	$ 174
Fair value, end of year	$ 342	$ 285

The Company and IGM both have a year-end date of December 31. The Company's year-end results are approved and reported before IGM publicly reports its financial result; therefore, the Company reports IGM's financial information by estimating the amount of earnings attributable to the Company, based on prior quarter information as well as other market expectations, to complete equity method accounting. The difference between actual and estimated results is reflected in the subsequent quarter and is not material to the Company's consolidated financial statements.

IGM's financial information as at December 31, 2019 can be obtained in its publicly available information.

At December 31, 2019, IGM owned 37,337,133 (39,737,388 at December 31, 2018) common shares of the Company.

(d) Included in portfolio investments are the following:

(i) Carrying amount of impaired investments

	2019	2018
Impaired amounts by classification		
Fair value through profit or loss	$ 21	$ 178
Available-for-sale	16	30
Loans and receivables	29	28
Total	$ 66	$ 236

The carrying amount of impaired investments includes $37 bonds and $29 mortgage loans at December 31, 2019 ($202 bonds, $24 mortgage loans and $10 stocks at December 31, 2018). The above carrying values for loans and receivables are net of allowances of $51 at December 31, 2019 and $20 at December 31, 2018.

(ii) The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

	2019			2018		
	Bonds	Mortgage loans	Total	Bonds	Mortgage loans	Total
Balance, beginning of year	$ –	$ 20	$ 20	$ –	$ 40	$ 40
Net provision for credit losses – in year	–	50	50	–	4	4
Write-offs, net of recoveries	–	(19)	(19)	–	(24)	(24)
Balance, end of year	$ –	$ 51	$ 51	$ –	$ 20	$ 20

The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

7. Portfolio Investments (cont'd)

(e) Net investment income comprises the following:

	2019					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 3,948	$ 906	$ 301	$ 374	$ 553	$ 6,082
Net realized gains						
Available-for-sale	57	–	19	–	–	76
Other classifications [1]	164	172	–	–	–	336
Net allowances for credit losses on loans and receivables	–	(50)	–	–	–	(50)
Other income (expenses)	–	–	–	(117)	(166)	(283)
	4,169	1,028	320	257	387	6,161
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	45	–	–	–	–	45
Designated fair value through profit or loss	5,740	107	1,405	–	(388)	6,864
Recorded at fair value through profit or loss	–	–	–	37	–	37
	5,785	107	1,405	37	(388)	6,946
Total	$ 9,954	$ 1,135	$ 1,725	$ 294	$ (1)	$ 13,107

(1) Includes realized gains from invested assets transferred as a result of the reinsurance transaction with Protective Life (note 3).

	2018					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 4,416	$ 916	$ 271	$ 340	$ 529	$ 6,472
Net realized gains (losses)						
Available-for-sale	(7)	–	3	–	–	(4)
Other classifications	15	81	–	–	21	117
Net allowances for credit losses on loans and receivables	–	(4)	–	–	–	(4)
Other income (expenses)	–	–	–	(95)	(128)	(223)
	4,424	993	274	245	422	6,358
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(13)	–	(1)	–	–	(14)
Designated fair value through profit or loss	(3,027)	(24)	(775)	–	201	(3,625)
Recorded at fair value through profit or loss	–	–	–	33	–	33
	(3,040)	(24)	(776)	33	201	(3,606)
Total	$ 1,384	$ 969	$ (502)	$ 278	$ 623	$ 2,752

Investment income earned comprises income from investments that are classified as available-for-sale, loans and receivables and investments classified or designated as fair value through profit or loss. Investment income from bonds and mortgages includes interest income and premium and discount amortization. Income from stocks includes dividends, distributions from private equity and equity income from the investment in IGM. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

(f) Transferred Financial Assets

The Company engages in securities lending to generate additional income. The Company's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with the Company's lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. Included in the collateral deposited with the Company's lending agent is cash collateral of $398 as of December 31, 2019 ($84 at December 31, 2018). In addition, the securities lending agent indemnifies the Company against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2019, the Company had loaned securities (which are included in invested assets) with a fair value of $7,023 ($8,847 at December 31, 2018).

8. Funds Held by Ceding Insurers

At December 31, 2019, the Company had amounts on deposit of $8,714 ($9,251 at December 31, 2018) for funds held by ceding insurers on the Consolidated Balance Sheets. Income and expenses arising from the agreements are included in net investment income in the Consolidated Statements of Earnings.

The details of the funds on deposit for certain agreements where the Company has credit risk are as follows:

(a) Carrying values and estimated fair values:

	2019		2018	
	Carrying value	**Fair value**	Carrying value	Fair value
Cash and cash equivalents	**$ 216**	**$ 216**	$ 230	$ 230
Bonds	**6,445**	**6,445**	6,925	6,925
Other assets	**80**	**80**	91	91
Total	**$ 6,741**	**$ 6,741**	$ 7,246	$ 7,246
Supporting:				
Reinsurance liabilities	**$ 6,537**	**$ 6,537**	$ 6,992	$ 6,992
Surplus	**204**	**204**	254	254
Total	**$ 6,741**	**$ 6,741**	$ 7,246	$ 7,246

(b) The following provides details of the carrying value of bonds included in the funds on deposit by issuer and industry sector:

	2019	2018
Bonds issued or guaranteed by:		
Treasuries	**$ 624**	$ 821
Government related	**1,275**	1,349
Non-agency securitized	**763**	745
Financials	**1,412**	1,607
Communications	**154**	154
Consumer products	**438**	448
Energy	**176**	206
Industrials	**234**	217
Technology	**72**	74
Transportation	**170**	168
Utilities	**1,127**	1,136
Total	**$ 6,445**	$ 6,925

(c) Asset quality

Bond Portfolio By Credit Rating

	2019	2018
AAA	**$ 601**	$ 609
AA	**2,670**	2,858
A	**2,264**	2,698
BBB	**822**	667
BB and lower	**88**	93
Total	**$ 6,445**	$ 6,925

9. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, management, monitoring and reporting of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks.

The following sections describe how the Company manages each of these risks.

(a) Credit Risk

Credit risk is the risk of loss resulting from an obligor's potential inability or unwillingness to fully meet its contractual obligations.

The following policies and procedures are in place to manage this risk:

- Investment policies aim to minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- Portfolios are monitored continuously, and reviewed regularly with the Risk Committee and the Investment Committee of the Board of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators. The Company manages derivative credit risk by including derivative exposure to aggregate credit exposures measured against rating based obligor limits and through collateral arrangements where possible.
- Counterparties providing reinsurance to the Company are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in the Reinsurance Risk Management Policy. The Company seeks to minimize reinsurance credit risk by setting rating based limits on net ceded exposure by counterparty as well as seeking protection in the form of collateral or funds withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

(i) Maximum Exposure to Credit Risk

The following summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2019	2018
Cash and cash equivalents	$ 4,628	$ 4,168
Bonds		
Fair value through profit or loss	85,946	91,901
Available-for-sale	11,710	13,239
Loans and receivables	17,372	19,722
Mortgage loans	24,268	25,014
Loans to policyholders	8,601	8,929
Funds held by ceding insurers (1)	8,714	9,251
Reinsurance assets	20,707	6,126
Interest due and accrued	1,196	1,388
Accounts receivable	3,256	2,502
Premiums in course of collection	1,429	1,312
Trading account assets	1,092	843
Finance leases receivable	405	410
Other assets (2)	444	672
Derivative assets	451	417
Total	**$ 190,219**	$ 185,894

(1) Includes $6,741 ($7,246 at December 31, 2018) of funds held by ceding insurers where the Company retains the credit risk of the assets supporting the liabilities ceded (note 8).

(2) Includes items such as current income taxes receivable and miscellaneous other assets of the Company (note 13).

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The Company has $156 of collateral received from counterparties as at December 31, 2019 ($109 at December 31, 2018) relating to derivative assets.

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single obligor, a group of related obligors or groups of obligors that have similar credit risk characteristics and operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following provides details of the carrying value of bonds by issuer, industry sector and operating segment:

	2019			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	$ 479	$ 72	$ 11,186	$ 11,737
Government related	19,307	1,795	8,814	29,916
Agency securitized	110	1,111	10	1,231
Non-agency securitized	2,159	4,664	1,738	8,561
Financials	4,119	3,011	6,346	13,476
Communications	888	617	1,120	2,625
Consumer products	3,761	2,738	3,504	10,003
Energy	2,173	1,071	906	4,150
Industrials	1,764	2,057	1,735	5,556
Technology	552	727	567	1,846
Transportation	2,897	546	1,197	4,640
Utilities	9,145	2,377	4,953	16,475
Total long-term bonds	47,354	20,786	42,076	110,216
Short-term bonds	2,680	720	1,412	4,812
Total	$ 50,034	$ 21,506	$ 43,488	$ 115,028

	2018			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	$ 654	$ 103	$ 12,492	$ 13,249
Government related	17,947	3,605	8,499	30,051
Agency securitized	80	1,531	14	1,625
Non-agency securitized	2,191	5,701	1,830	9,722
Financials	3,986	4,666	6,068	14,720
Communications	788	1,357	1,211	3,356
Consumer products	3,660	4,073	3,412	11,145
Energy	1,805	2,241	868	4,914
Industrials	1,606	3,932	1,757	7,295
Technology	611	1,105	470	2,186
Transportation	2,622	968	1,131	4,721
Utilities	8,525	4,201	4,686	17,412
Total long-term bonds	44,475	33,483	42,438	120,396
Short-term bonds	2,790	74	1,602	4,466
Total	$ 47,265	$ 33,557	$ 44,040	$ 124,862

9. Financial Instruments Risk Management (cont'd)

The following provides details of the carrying value of mortgage loans by operating segment:

	2019			
	Canada	United States	Europe	Total
Single family residential	$ 2,069	$ –	$ –	$ 2,069
Multi-family residential	4,496	1,798	710	7,004
Equity release	374	–	940	1,314
Commercial	7,871	2,198	3,812	13,881
Total	**$ 14,810**	**$ 3,996**	**$ 5,462**	**$ 24,268**

	2018			
	Canada	United States	Europe	Total
Single family residential	$ 2,104	$ –	$ –	$ 2,104
Multi-family residential	4,686	2,434	497	7,617
Equity release	26	–	787	813
Commercial	7,223	4,006	3,251	14,480
Total	$ 14,039	$ 6,440	$ 4,535	$ 25,014

(iii) Asset Quality

Bond Portfolio By Credit Rating

	2019	2018
AAA	$ 22,083	$ 23,558
AA	33,272	33,793
A	37,233	41,008
BBB	21,922	25,553
BB and lower	518	950
Total	**$ 115,028**	$ 124,862

Derivative Portfolio By Credit Rating

	2019	2018
Over-the-counter contracts (counterparty ratings):		
AA	$ 271	$ 252
A	146	110
BBB	34	47
Exchange-traded	–	8
Total	**$ 451**	$ 417

(iv) Loans Past Due, But Not Impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due. The following provides carrying values of the loans past due, but not impaired:

	2019	2018
Less than 30 days	$ 28	$ 1
30 – 90 days	1	2
Greater than 90 days	4	–
Total	**$ 33**	$ 3

(v) The following outlines the future asset credit losses provided for in insurance contract liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2019	2018
Participating	$ 1,175	$ 885
Non-participating	1,400	1,710
Total	**$ 2,575**	$ 2,595

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 57% (approximately 53% in 2018) of insurance and investment contract liabilities are non-cashable prior to maturity or claim, with a further 14% approximately (13% in 2018) of insurance and investment contract liabilities subject to fair value adjustments under certain conditions.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. The Company maintains $350 of liquidity at the Lifeco level through committed lines of credit with Canadian chartered banks. As well, the Company maintains a $150 liquidity facility at Great-West Life, a U.S. $500 revolving credit agreement with a syndicate of banks for use by Putnam, and a U.S. $50 line of credit at GWL&A.

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following summarizes the principal repayment schedule for certain of the Company's financial liabilities.

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
Debentures and other debt instruments	$ 5,454	$ 500	$ –	$ –	$ 730	$ –	$ 4,224
Capital trust securities [1]	150	–	–	–	–	–	150
Purchase obligations	316	125	57	29	13	8	84
Pension contributions	280	280	–	–	–	–	–
Total	**$ 6,200**	**$ 905**	**$ 57**	**$ 29**	**$ 743**	**$ 8**	**$ 4,458**

(1) Payments due have not been reduced to reflect that the Company held capital trust securities of $37 principal amount ($53 carrying value).

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

Caution Related to Risk Sensitivities

These consolidated financial statements include estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons including:

- Assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered,
- Changes in actuarial, investment return and future investment activity assumptions,
- Actual experience differing from the assumptions,
- Changes in business mix, effective income tax rates and other market factors,
- Interactions among these factors and assumptions when more than one changes, and
- The general limitations of the Company's internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

9. Financial Instruments Risk Management (cont'd)

(i) Currency Risk

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The Company has net investments in foreign operations. The Company's debt obligations are denominated in Canadian dollars, euros, and U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total equity. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

The following policies and procedures are in place to mitigate the Company's exposure to currency risk:

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented Investment Guidelines include maximum tolerances for unhedged currency mismatch exposures.
- For assets backing liabilities not matched by currency, the Company would normally convert the assets back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change to net earnings. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change in net earnings.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk:

- The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims) the Company generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.10% in 2019 (0.10% in 2018). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact the Company's range of scenarios covered.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries prescribed scenarios:

- At December 31, 2019 and December 31, 2018, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- At December 31, 2019 and December 31, 2018, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders' net earnings of the Company of a 1% change in the Company's view of the range of interest rates to be covered by these provisions. The following provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions:

	2019		2018	
	1% increase	**1% decrease**	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	**$ (230)**	**$ 811**	$ (165)	$ 639
Increase (decrease) in net earnings	**$ 175**	**$ (619)**	$ 115	$ (465)

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets and liabilities arising from changes in equity markets and other pricing risk. To mitigate pricing risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, the Company generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity values. However, there may be additional market and liability impacts as a result of changes in the equity values that will cause the liabilities to fluctuate differently than the equity values. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

	2019		2018	
	10% increase	**10% decrease**	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	**$ (107)**	**$ 162**	$ (87)	$ 338
Increase (decrease) in net earnings	**$ 87**	**$ (129)**	$ 73	$ (266)

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. The following provides information on the expected impacts of a 1% increase or 1% decrease in the best estimate assumptions:

	2019		2018	
	1% increase	**1% decrease**	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	**$ (645)**	**$ 752**	$ (591)	$ 680
Increase (decrease) in net earnings	**$ 509**	**$ (585)**	$ 476	$ (539)

9. Financial Instruments Risk Management (cont'd)

(d) Enforceable Master Netting Arrangements or Similar Agreements

The Company enters into International Swaps and Derivative Association's (ISDA's) master agreements for transacting over-the-counter derivatives. The Company receives and pledges collateral according to the related ISDA's Credit Support Annexes. The ISDA's master agreements do not meet the criteria for offsetting on the Consolidated Balance Sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with the exchanges and clearinghouses, there is no provision for set-off at default. Initial margin is excluded from the table within this disclosure as it would become part of a pooled settlement process.

The Company's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between the Company and its counterparties in the event of default.

The table sets out the potential effect on the Company's Consolidated Balance Sheets on financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the Consolidated Balance Sheets.

	2019			
		Related amounts not set-off in the Balance Sheet		
	Gross amount of financial instruments presented in the Balance Sheet	Offsetting counterparty position [1]	Financial collateral received/ pledged [2]	Net exposure
Financial instruments – assets				
Derivative financial instruments	$ 451	$ (309)	$ (107)	$ 35
Reverse repurchase agreements [3]	4	–	(4)	–
Total financial instruments – assets	$ 455	$ (309)	$ (111)	$ 35
Financial instruments – liabilities				
Derivative financial instruments	$ 1,381	$ (309)	$ (556)	$ 516
Total financial instruments – liabilities	$ 1,381	$ (309)	$ (556)	$ 516

	2018			
		Related amounts not set-off in the Balance Sheet		
	Gross amount of financial instruments presented in the Balance Sheet	Offsetting counterparty position [1]	Financial collateral received/ pledged [2]	Net exposure
Financial instruments – assets				
Derivative financial instruments	$ 417	$ (276)	$ (101)	$ 40
Reverse repurchase agreements [3]	15	–	(15)	–
Total financial instruments – assets	$ 432	$ (276)	$ (116)	$ 40
Financial instruments – liabilities				
Derivative financial instruments	$ 1,562	$ (276)	$ (599)	$ 687
Total financial instruments – liabilities	$ 1,562	$ (276)	$ (599)	$ 687

(1) Includes counterparty amounts recognized on the Consolidated Balance Sheets where the Company has a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheet, excluding collateral.

(2) Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $156 ($113 at December 31, 2018), received on reverse repurchase agreements was $4 ($15 at December 31, 2018), and pledged on derivative liabilities was $634 ($691 at December 31, 2018).

(3) Assets related to reverse repurchase agreements are included in bonds, on the Consolidated Balance Sheets.

10. Fair Value Measurement

The Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and investment funds, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, and mortgage loans. Investment contracts that are measured at fair value through profit or loss are mostly included in the Level 2 category.

Level 3: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single broker quotes, internal pricing models, or external appraisers. Assets and liabilities utilizing Level 3 inputs generally include certain bonds, certain asset-backed securities, some private equities, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties and equity release mortgages.

The following presents the Company's assets and liabilities measured at fair value on a recurring basis by hierarchy level:

	2019			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash and cash equivalents	$ 4,628	$ –	$ –	$ 4,628
Financial assets at fair value through profit or loss				
Bonds	–	85,879	67	85,946
Mortgage loans	–	–	1,314	1,314
Stocks	8,956	118	678	9,752
Total financial assets at fair value through profit or loss	8,956	85,997	2,059	97,012
Available-for-sale financial assets				
Bonds	–	11,710	–	11,710
Stocks	12	–	4	16
Total available-for-sale financial assets	12	11,710	4	11,726
Investment properties	–	–	5,887	5,887
Funds held by ceding insurers	216	6,445	–	6,661
Derivatives (1)	–	451	–	451
Reinsurance assets	–	127	–	127
Other assets:				
Trading account assets	332	760	–	1,092
Other (2)	43	355	–	398
Total assets measured at fair value	$ 14,187	$ 105,845	$ 7,950	$ 127,982
Liabilities measured at fair value				
Derivatives (3)	$ 3	$ 1,378	$ –	$ 1,381
Investment contract liabilities	–	1,656	–	1,656
Other liabilities	43	355	–	398
Total liabilities measured at fair value	$ 46	$ 3,389	$ –	$ 3,435

(1) Excludes collateral received from counterparties of $155.
(2) Includes collateral received under securities lending arrangements.
(3) Excludes collateral pledged to counterparties of $580.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the year.

10. Fair Value Measurement (cont'd)

	2018			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash and cash equivalents	$ 4,168	$ –	$ –	$ 4,168
Financial assets at fair value through profit or loss				
Bonds	–	91,834	67	91,901
Mortgage loans	–	–	813	813
Stocks	8,254	–	404	8,658
Total financial assets at fair value through profit or loss	8,254	91,834	1,284	101,372
Available-for-sale financial assets				
Bonds	–	13,239	–	13,239
Stocks	9	–	2	11
Total available-for-sale financial assets	9	13,239	2	13,250
Investment properties	–	–	5,218	5,218
Funds held by ceding insurers	230	6,925	–	7,155
Derivatives [1]	8	409	–	417
Assets held for sale	134	731	29	894
Other assets:				
Trading account assets	597	246	–	843
Other [2]	–	84	–	84
Total assets measured at fair value	$ 13,400	$ 113,468	$ 6,533	$ 133,401
Liabilities measured at fair value				
Derivatives [3]	$ 2	$ 1,560	$ –	$ 1,562
Investment contract liabilities	–	1,711	–	1,711
Investment contract liabilities held for sale	–	1	26	27
Other liabilities	–	84	–	84
Total liabilities measured at fair value	$ 2	$ 3,356	$ 26	$ 3,384

(1) Excludes collateral received from counterparties of $109.
(2) Includes collateral received under securities lending arrangements.
(3) Excludes collateral pledged to counterparties of $612.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the year.

The following presents additional information about assets and liabilities measured at fair value on a recurring basis which the Company classifies as Level 3 in the fair value hierarchy:

	2019									
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks [3]	Available for-sale stocks	Investment properties	Assets held for sale	Total Level 3 assets	Investment contract liabilities	Liabilities held for sale	Total Level 3 liabilities
Balance, beginning of year	$ 67	$ 813	$ 404	$ 2	$ 5,218	$ 29	$ 6,533	$ –	$ 26	$ 26
Change in accounting policy (note 2)	–	–	–	–	29	–	29	–	–	–
Revised balance, beginning of year	67	813	404	2	5,247	29	6,562	–	26	26
Total gains (losses)										
Included in net earnings	4	109	40	–	37	(2)	188	–	–	–
Included in other comprehensive income [1]	(4)	(5)	–	–	(36)	(1)	(46)	–	–	–
Purchases	–	–	299	2	644	–	945	–	–	–
Issues	–	469	–	–	–	–	469	–	–	–
Sales	–	–	(65)	–	(5)	(26)	(96)	–	–	–
Settlements	–	(72)	–	–	–	–	(72)	–	–	–
Other	–	–	–	–	–	–	–	–	(26)	(26)
Transfers into Level 3 [2]	–	–	–	–	–	–	–	–	–	–
Transfers out of Level 3 [2]	–	–	–	–	–	–	–	–	–	–
Transferred to held for sale	–	–	–	–	–	–	–	–	–	–
Balance, end of year	$ 67	$ 1,314	$ 678	$ 4	$ 5,887	$ –	$ 7,950	$ –	$ –	$ –
Total gains (losses) for the year included in net investment income	$ 4	$ 109	$ 40	$ –	$ 37	$ (2)	$ 188	$ –	$ –	$ –
Change in unrealized gains (losses) for the year included in earnings for assets held at December 31, 2019	$ 4	$ 105	$ 38	$ –	$ 37	$ –	$ 184	$ –	$ –	$ –

(1) Amount of other comprehensive income for fair value through profit or loss bonds, mortgage loans and investment properties represents the unrealized gains (losses) on foreign exchange.

(2) Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual and segregated funds.

(3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

10. Fair Value Measurement (cont'd)

	2018									
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks [3]	Available for-sale stocks	Investment properties	Assets held for sale	Total Level 3 assets	Investment contract liabilities	Liabilities held for sale	Total Level 3 liabilities
Balance, beginning of year	$ 65	$ –	$ 243	$ 1	$ 4,851	$ –	$ 5,160	$ 22	$ –	$ 22
Total gains (losses)										
Included in net earnings	–	(24)	20	–	33	–	29	–	–	–
Included in other comprehensive income [1]	2	20	–	–	70	–	92	–	–	–
Business acquisitions	–	799	–	–	–	–	799	–	–	–
Purchases	–	–	203	1	356	–	560	–	–	–
Issues	–	76	–	–	–	–	76	–	–	–
Sales	–	–	(62)	–	(63)	–	(125)	–	–	–
Settlements	–	(58)	–	–	–	–	(58)	–	–	–
Other	–	–	–	–	–	–	–	4	–	4
Transfers into Level 3 [2]	–	–	–	–	–	–	–	–	–	–
Transfers out of Level 3 [2]	–	–	–	–	–	–	–	–	–	–
Transferred to held for sale	–	–	–	–	(29)	29	–	(26)	26	–
Balance, end of year	$ 67	$ 813	$ 404	$ 2	$ 5,218	$ 29	$ 6,533	$ –	$ 26	$ 26
Total gains (losses) for the year included in net investment income	$ –	$ (24)	$ 20	$ –	$ 33	$ –	$ 29	$ –	$ –	$ –
Change in unrealized gains (losses) for the year included in earnings for assets held at December 31, 2018	$ –	$ (24)	$ 19	$ –	$ 26	$ –	$ 21	$ –	$ –	$ –

(1) Amount of other comprehensive income for fair value through profit or loss bonds, mortgage loans and investment properties represents the unrealized gains (losses) on foreign exchange.

(2) Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual and segregated funds.

(3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

The following sets out information about significant unobservable inputs used at year-end in measuring assets and liabilities categorized as Level 3 in the fair value hierarchy:

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 2.6% – 10.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.3% – 6.8%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 2.4%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage loans – equity release mortgages (fair value through profit or loss)	The valuation approach for equity release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long term care of the loanholders.	Discount rate	Range of 3.6% – 4.8%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

The following presents the Company's assets and liabilities disclosed at fair value on a recurring basis by hierarchy level:

	2019				
	Level 1	Level 2	Level 3	Other assets/ liabilities not held at fair value	Total
Assets disclosed at fair value					
Loans and receivables financial assets					
Bonds	$ –	$ 19,281	$ 63	$ –	$ 19,344
Mortgage loans	–	23,832	–	–	23,832
Loans to policyholders	–	8,601	–	–	8,601
Total loans and receivables financial assets	–	51,714	63	–	51,777
Available-for-sale financial assets					
Stocks [1]	–	–	–	189	189
Other stocks [2]	342	–	–	68	410
Funds held by ceding insurers	–	–	–	80	80
Total assets disclosed at fair value	$ 342	$ 51,714	$ 63	$ 337	$ 52,456
Liabilities disclosed at fair value					
Debentures and other debt instruments	$ 429	$ 6,450	$ –	$ –	$ 6,879
Total liabilities disclosed at fair value	$ 429	$ 6,450	$ –	$ –	$ 6,879

(1) Fair value of certain stocks available for sale cannot be reliably measured, therefore, these investments are recorded at cost.
(2) Other stocks include the Company's investments in an affiliated company, IGM, a member of the Power Financial group of companies.

	2018				
	Level 1	Level 2	Level 3	Other assets/ liabilities not held at fair value	Total
Assets disclosed at fair value					
Loans and receivables financial assets					
Bonds	$ –	$ 20,524	$ 95	$ –	$ 20,619
Mortgage loans	–	24,598	–	–	24,598
Loans to policyholders	–	8,929	–	–	8,929
Total loans and receivables financial assets	–	54,051	95	–	54,146
Available-for-sale financial assets					
Stocks [1]	–	–	–	267	267
Other stocks [2]	285	–	–	8	293
Assets held for sale	–	3	–	–	3
Funds held by ceding insurers	–	–	–	91	91
Total assets disclosed at fair value	$ 285	$ 54,054	$ 95	$ 366	$ 54,800
Liabilities disclosed at fair value					
Debentures and other debt instruments	$ 475	$ 6,450	$ –	$ –	$ 6,925
Total liabilities disclosed at fair value	$ 475	$ 6,450	$ –	$ –	$ 6,925

(1) Fair value of certain stocks available for sale cannot be reliably measured, therefore, these investments are recorded at cost.
(2) Other stocks include the Company's investments in an affiliated company, IGM, a member of the Power Financial group of companies.

11. Goodwill and Intangible Assets

(a) Goodwill

(i) The carrying value and changes in the carrying value of goodwill are as follows:

	2019	2018
Cost		
Balance, beginning of year	**$ 7,771**	$ 7,312
Business acquisitions	**33**	331
Invesco purchase price allocation to finite life intangible assets	**(6)**	–
Changes in foreign exchange rates	**(105)**	128
Balance, end of year	**$ 7,693**	$ 7,771
Accumulated impairment		
Balance, beginning of year	**$ (1,223)**	$ (1,133)
Impairment [1]	**(19)**	–
Changes in foreign exchange rates	**54**	(90)
Balance, end of year	**$ (1,188)**	$ (1,223)
Net carrying amount	**$ 6,505**	$ 6,548

(1) During 2019, $19 of the goodwill in the Financial Services cash generating unit grouping was impaired as a result of the reinsurance transaction with Protective Life (note 3).

(ii) Within each of the three operating segments, goodwill has been assigned to cash generating unit groupings, representing the lowest level in which goodwill is monitored for internal reporting purposes. Lifeco does not allocate insignificant amounts of goodwill and indefinite life intangible assets across multiple cash generating unit groupings. Goodwill is tested for impairment by comparing the carrying value of each cash generating unit grouping to which goodwill has been assigned to its recoverable amount as follows:

	2019	2018
Canada		
Group Customer	**$ 1,481**	$ 1,470
Individual Customer	**2,562**	2,545
Europe		
Insurance and Annuities	**2,282**	2,325
United States		
Financial Services [1]	**180**	208
Total	**$ 6,505**	$ 6,548

(1) During 2019, $19 of the goodwill in the Financial Services cash generating unit grouping was impaired as a result of the reinsurance transaction with Protective Life (note 3).

(b) Intangible Assets

Intangible assets of $3,879 ($3,976 as at December 31, 2018) include indefinite life and finite life intangible assets. The carrying value and changes in the carrying value of these intangible assets are as follows:

(i) Indefinite life intangible assets:

	2019			
	Brands and trademarks	Customer contract related	Shareholders' portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	**$ 1,006**	**$ 2,665**	**$ 354**	**$ 4,025**
Changes in foreign exchange rates	**(34)**	**(103)**	**–**	**(137)**
Balance, end of year	**$ 972**	**$ 2,562**	**$ 354**	**$ 3,888**
Accumulated impairment				
Balance, beginning of year	**$ (140)**	**$ (1,101)**	**$ –**	**$ (1,241)**
Changes in foreign exchange rates	**7**	**50**	**–**	**57**
Balance, end of year	**$ (133)**	**$ (1,051)**	**$ –**	**$ (1,184)**
Net carrying amount	**$ 839**	**$ 1,511**	**$ 354**	**$ 2,704**

	2018			
	Brands and trademarks	Customer contract related	Shareholders' portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	$ 964	$ 2,495	$ 354	$ 3,813
Changes in foreign exchange rates	42	170	–	212
Balance, end of year	$ 1,006	$ 2,665	$ 354	$ 4,025
Accumulated impairment				
Balance, beginning of year	$ (132)	$ (1,019)	$ –	$ (1,151)
Changes in foreign exchange rates	(8)	(82)	–	(90)
Balance, end of year	$ (140)	$ (1,101)	$ –	$ (1,241)
Net carrying amount	$ 866	$ 1,564	$ 354	$ 2,784

(ii) Indefinite life intangible assets have been assigned to the cash generating unit groupings as follows:

	2019	2018
Canada		
Group Customer	**$ 354**	$ 354
Individual Customer	**619**	619
Europe		
Insurance and Annuities	**223**	233
United States		
Asset Management	**1,508**	1,578
Total	**$ 2,704**	$ 2,784

11. Goodwill and Intangible Assets (cont'd)

(iii) Finite life intangible assets:

	2019			
	Customer contract related	Distribution channels	Technology/ Software	Total
Amortization period range	7 – 30 years	30 years	3 – 10 years	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	$ 1,047	$ 111	$ 1,717	$ 2,875
Additions	11	–	247	258
Changes in foreign exchange rates	(27)	(3)	(54)	(84)
Disposals	–	–	(25)	(25)
Balance, end of year	$ 1,031	$ 108	$ 1,885	$ 3,024
Accumulated amortization and impairment				
Balance, beginning of year	$ (586)	$ (57)	$ (1,040)	$ (1,683)
Changes in foreign exchange rates	11	1	41	53
Disposals	–	–	5	5
Amortization	(55)	(4)	(165)	(224)
Balance, end of year	$ (630)	$ (60)	$ (1,159)	$ (1,849)
Net carrying amount	$ 401	$ 48	$ 726	$ 1,175

	2018			
	Customer contract related	Distribution channels	Technology/ Software	Total
Amortization period range	7 – 30 years	30 years	3 – 10 years	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	$ 975	$ 108	$ 1,390	$ 2,473
Additions	34	–	270	304
Changes in foreign exchange rates	38	3	70	111
Disposals	–	–	(13)	(13)
Balance, end of year	$ 1,047	$ 111	$ 1,717	$ 2,875
Accumulated amortization and impairment				
Balance, beginning of year	$ (505)	$ (52)	$ (846)	$ (1,403)
Changes in foreign exchange rates	(24)	(1)	(49)	(74)
Disposals	–	–	6	6
Amortization	(57)	(4)	(151)	(212)
Balance, end of year	$ (586)	$ (57)	$ (1,040)	$ (1,683)
Net carrying amount	$ 461	$ 54	$ 677	$ 1,192

The weighted average remaining amortization period of the customer contract related and distribution channels are 13 and 14 years respectively (13 and 15 years respectively at December 31, 2018).

(c) Recoverable Amount

For the purposes of annual impairment testing, the Company allocates goodwill and indefinite life intangible assets to cash generating unit groupings. Any potential impairment of goodwill or indefinite life intangible assets is identified by comparing the recoverable amount of a cash generating unit grouping to its carrying value. Recoverable amount is based on fair value less cost of disposal.

Fair value is initially assessed with reference to valuation multiples of comparable publicly-traded financial institutions and precedent business acquisitions transactions. These valuation multiples may include price-to-earnings or price-to-book measures for life insurers and asset managers. This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs.

In the fourth quarter of 2019, the Company conducted its annual impairment testing of goodwill and indefinite life intangible assets based on September 30, 2019 asset balances. It was determined that the recoverable amounts of cash generating unit groupings were in excess of their carrying values and there was no evidence of significant impairment.

Any reasonable changes in assumptions and estimates used in determining recoverable amounts of cash generating unit groupings is unlikely to cause carrying values to exceed recoverable amounts.

12. Owner Occupied Properties and Fixed Assets

The carrying value of owner occupied properties and the changes in the carrying value of owner occupied properties are as follows:

	2019	2018
Carrying value, beginning of year	**$ 835**	$ 789
Less: accumulated depreciation/impairments	**(104)**	(83)
Net carrying value, beginning of year	**731**	706
Additions	**34**	28
Disposals	**(10)**	–
Impairment recovery (charge)	**2**	(9)
Depreciation	**(13)**	(12)
Foreign exchange	**(17)**	18
Net carrying value, end of year	**$ 727**	$ 731

The net carrying value of fixed assets is $455 at December 31, 2019 ($448 at December 31, 2018).

The following provides details of the net carrying value of owner occupied properties and fixed assets by operating segment:

	2019	2018
Canada	**$ 650**	$ 612
United States	**334**	357
Europe	**198**	210
Total	**$ 1,182**	$ 1,179

There are no restrictions on the title of the owner occupied properties and fixed assets, nor are they pledged as security for debt.

13. Other Assets

	2019	2018
Deferred acquisition costs	$ 595	$ 597
Right-of-use assets	466	–
Trading account assets [1]	1,092	843
Finance leases receivable	405	410
Defined benefit pension plan assets (note 24)	231	148
Prepaid expenses	113	115
Miscellaneous other assets	208	454
Total	**$ 3,110**	**$ 2,567**

(1) Includes bonds of $726 and stocks of $366 at December 31, 2019 (bonds of $215 and stocks of $628 at December 31, 2018).

Total other assets of $1,443 ($1,441 at December 31, 2018) are expected to be realized within 12 months from the reporting date. This amount excludes deferred acquisition costs, the changes in which are noted below.

Deferred acquisition costs	2019	2018
Balance, beginning of year	$ 597	$ 633
Change in accounting policy	–	(59)
Revised balance, beginning of year	597	574
Additions	118	86
Amortization	(51)	(46)
Changes in foreign exchange rates	(32)	18
Disposals	(36)	(35)
Write-off	(1)	–
Balance, end of year	$ 595	$ 597

	2019		
Right-of-use assets	Property	Equipment	Total
Opening balance, January 1, 2019 (note 2)	$ 454	$ 6	$ 460
Additions	113	1	114
Modifications	(21)	–	(21)
Changes in foreign exchange rates	(16)	–	(16)
Cost, end of year	$ 530	$ 7	$ 537
Accumulated amortization, January 1, 2019	$ –	$ –	$ –
Amortization	(67)	(2)	(69)
Impairment	(3)	–	(3)
Changes in foreign exchange rates	1	–	1
Accumulated amortization, end of year	$ (69)	$ (2)	$ (71)
Carrying amount, end of year	$ 461	$ 5	$ 466

Finance leases receivable

The Company has a finance lease on one property in Canada which has been leased for a 25-year term. The Company has five finance leases on properties in Europe. These properties have been leased for terms ranging between 27 and 40 years.

The terms to maturity of the lease payments receivable are as follows:

	2019	2018
One year or less	$ 30	$ 29
Over one year to two years	30	30
Over two years to three years	30	30
Over three years to four years	30	30
Over four years to five years	30	30
Over five years	686	733
Total undiscounted lease payments	836	882
Less: unearned finance lease income	431	472
Total finance leases receivable	$ 405	$ 410
Finance income on the net investment in the leases	$ 26	$ 26

14. Insurance and Investment Contract Liabilities

(a) Insurance and investment contract liabilities

	2019		
	Gross liability	Reinsurance assets [1]	Net
Insurance contract liabilities	$ 174,521	$ 20,580	$ 153,941
Investment contract liabilities	1,656	127	1,529
Total	$ 176,177	$ 20,707	$ 155,470

	2018		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	$ 166,720	$ 6,126	$ 160,594
Investment contract liabilities	1,711	–	1,711
Total	$ 168,431	$ 6,126	$ 162,305

(1) Includes reinsurance assets recognized upon the completion of the reinsurance transaction with Protective Life (note 3).

(b) Composition of insurance and investment contract liabilities and related supporting assets

(i) The composition of insurance and investment contract liabilities is as follows:

	2019		
	Gross liability	Reinsurance assets	Net
Participating			
Canada	$ 42,271	$ (247)	$ 42,518
United States	11,329	12	11,317
Europe	1,019	–	1,019
Non-Participating			
Canada	32,668	498	32,170
United States	32,360	15,091	17,269
Europe	56,530	5,353	51,177
Total	$ 176,177	$ 20,707	$ 155,470

	2018		
	Gross liability	Reinsurance assets	Net
Participating			
Canada	$ 38,078	$ (351)	$ 38,429
United States	11,871	14	11,857
Europe	978	–	978
Non-Participating			
Canada	30,174	500	29,674
United States	31,042	271	30,771
Europe	56,288	5,692	50,596
Total	$ 168,431	$ 6,126	$ 162,305

14. Insurance and Investment Contract Liabilities (cont'd)

(ii) The composition of the assets supporting liabilities and equity is as follows:

	2019					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	$ 19,484	$ 9,655	$ 6,142	$ 2,472	$ 4,518	$ 42,271
United States	5,128	626	–	–	5,575	11,329
Europe	716	20	63	12	208	1,019
Non-participating liabilities						
Canada	20,270	4,111	2,237	407	5,643	32,668
United States	14,311	2,678	–	–	15,371	32,360
Europe	35,546	5,442	299	2,672	12,571	56,530
Other	15,630	902	902	119	231,894	249,447
Total equity	3,943	834	732	205	19,829	25,543
Total carrying value	$ 115,028	$ 24,268	$ 10,375	$ 5,887	$ 295,609	$ 451,167
Fair value	$ 117,000	$ 25,146	$ 10,367	$ 5,887	$ 295,609	$ 454,009

	2018					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	$ 18,044	$ 9,145	$ 5,397	$ 1,908	$ 3,584	$ 38,078
United States	5,140	749	–	–	5,982	11,871
Europe	708	24	68	18	160	978
Non-participating liabilities						
Canada	19,204	3,845	1,916	196	5,013	30,174
United States	25,324	4,993	–	–	725	31,042
Europe	35,174	4,511	191	2,795	13,617	56,288
Other	15,504	1,038	940	99	214,279	231,860
Total equity	5,764	709	778	202	19,945	27,398
Total carrying value	$ 124,862	$ 25,014	$ 9,290	$ 5,218	$ 263,305	$ 427,689
Fair value	$ 125,759	$ 25,411	$ 9,229	$ 5,218	$ 263,305	$ 428,922

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(c) Change in insurance contract liabilities

The change in insurance contract liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	2019		
	Participating		
	Gross liability	Reinsurance assets	Net
Balance, beginning of year	**$ 50,927**	**$ (337)**	**$ 51,264**
Impact of new business	**59**	**–**	**59**
Normal change in force	**4,138**	**25**	**4,113**
Management action and changes in assumptions	**67**	**77**	**(10)**
Impact of foreign exchange rate changes	**(572)**	**–**	**(572)**
Balance, end of year	**$ 54,619**	**$ (235)**	**$ 54,854**

	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	**$ 115,793**	**$ 6,463**	**$ 109,330**	**$ 160,594**
Impact of new business	**5,339**	**(266)**	**5,605**	**5,664**
Normal change in force	**1,784**	**645**	**1,139**	**5,252**
Management action and changes in assumptions	**(117)**	**(73)**	**(44)**	**(54)**
Business movement from/to external parties	**(176)**	**14,802**	**(14,978)**	**(14,978)**
Impact of foreign exchange rate changes	**(2,721)**	**(756)**	**(1,965)**	**(2,537)**
Balance, end of year	**$ 119,902**	**$ 20,815**	**$ 99,087**	**$ 153,941**

	2018		
	Participating		
	Gross liability	Reinsurance assets	Net
Balance, beginning of year	$ 48,856	$ (341)	$ 49,197
Impact of new business	24	–	24
Normal change in force	1,413	7	1,406
Management action and changes in assumptions	(29)	(5)	(24)
Transfer of liabilities to held for sale (note 4)	(281)	–	(281)
Impact of foreign exchange rate changes	944	2	942
Balance, end of year	$ 50,927	$ (337)	$ 51,264

	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	$ 110,668	$ 5,386	$ 105,282	$ 154,479
Impact of new business	6,680	169	6,511	6,535
Normal change in force	(6,553)	(243)	(6,310)	(4,904)
Management action and changes in assumptions	(700)	25	(725)	(749)
Business movement from/to external parties	(134)	(2)	(132)	(132)
Retirement Advantage acquisition	2,572	931	1,641	1,641
Transfer of liabilities to held for sale (note 4)	(589)	–	(589)	(870)
Impact of foreign exchange rate changes	3,849	197	3,652	4,594
Balance, end of year	$ 115,793	$ 6,463	$ 109,330	$ 160,594

14. Insurance and Investment Contract Liabilities (cont'd)

Under IFRS, movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in force above.

In July 2019, the Canadian Actuarial Standards Board published revised standards for the valuation of insurance contract liabilities, with an effective date of October 15, 2019. The revised standards include decreases to ultimate reinvestment rates and revised calibration criteria for stochastic risk-free interest rates.

In 2019, the major contributor to the decrease in net insurance contract liabilities was the business movement to external parties of $14,978, which includes the transfer to Protective Life, and the net impact of foreign exchange rate changes of $2,537. This was partially offset by increases due to the impact of new business of $5,664, and normal change in force of $5,252.

Net non-participating insurance contract liabilities decreased by $44 in 2019 due to management actions and assumption changes including a $241 decrease in Europe and Reinsurance, partially offset by a $145 increase in Canada and a $52 increase in the United States.

The increase in Canada was primarily due to updated policyholder behaviour assumptions of $254, and updated longevity assumptions of $54, partially offset by decreases due to updated morbidity assumptions of $169 and updated economic assumptions of $6, which includes the net impact of the new standards.

The decrease in Europe was primarily due to updated longevity assumptions of $299, and updated economic assumptions of $101, which includes the net impact of new standards, partially offset by increases due to updated life mortality assumptions of $80, and updated expenses and tax assumptions of $59.

The increase in the United States was primarily due to updated expenses and tax assumptions of $45, and updated mortality assumptions of $43 partially offset by decreases due to updated economic assumptions of $34, which includes the net impact of new standards.

Net participating insurance contract liabilities decreased by $10 in 2019 due to management actions and assumption changes. The decrease was primarily due to updated provisions for future policyholder dividends of $2,232, updated expenses and tax assumptions of $535, and modeling refinements of $198. This was partially offset by increases due to updated economic assumptions of $1,884, updated policyholder behaviour assumptions of $935 and updated mortality assumptions of $153.

In 2018, the major contributors to the increase in net insurance contract liabilities were the impact of new business of $6,535, the acquisition of Retirement Advantage of $1,641 and the net impact of foreign exchange rate changes of $4,594. This was partially offset by decrease due to normal change in force of $4,904, the expected transfer of UK heritage business to Scottish Friendly of $870 and management action and changes in assumptions of $749.

Net non-participating insurance contract liabilities decreased by $725 in 2018 due to management actions and assumption changes including a $562 decrease in Europe and Reinsurance, a $107 decrease in Canada and a $56 decrease in the United States.

The decrease in Canada was primarily due to updated economic assumptions of $197, updated provision for claims of $19 and updated provision for experience rating refunds of $10, partially offset by increases due to updated morbidity assumptions of $62, updated policyholder behaviour assumptions of $46 and updated life mortality assumptions of $10.

The decrease in Europe was primarily due to updated longevity assumptions of $372, updated life mortality assumptions of $129, modeling refinements of $41, updated economic assumptions of $39, updated morbidity assumptions of $25, and updated expense and tax assumptions of $21, partially offset by increases due to updated policyholder behaviour assumptions of $65.

The decrease in the United States was primarily due to updated policyholder behaviour assumptions of $63, updated life mortality assumptions of $16 and updated longevity assumptions of $15, partially offset by increases due to modeling refinements of $21 and updated economic assumptions of $13.

Net participating insurance contract liabilities decreased by $24 in 2018 due to management actions and assumption changes. The decrease was primarily due to modeling refinements of $229, expense and tax assumptions of $133 and updated mortality assumptions of $5, partially offset by increases due to updated provisions for future policyholder dividends of $232, lower investment returns of $101 and updated policyholder behaviour assumptions of $8.

(d) Change in investment contract liabilities measured at fair value

	2019			2018
	Gross liability	Reinsurance assets	Net	Net
Balance, beginning of year	**$ 1,711**	**$ –**	**$ 1,711**	$ 1,841
Normal change in force business	**(87)**	**38**	**(125)**	(190)
Investment experience	**103**	**(23)**	**126**	(26)
Management action and changes in assumptions	**(4)**	**–**	**(4)**	15
Business movement from/to external parties	**–**	**116**	**(116)**	–
Transfer of liabilities to held for sale (note 4)	**–**	**–**	**–**	(27)
Impact of foreign exchange rate changes	**(67)**	**(4)**	**(63)**	98
Balance, end of year	**$ 1,656**	**$ 127**	**$ 1,529**	$ 1,711

The carrying value of investment contract liabilities approximates their fair value. No investment contract liabilities were reinsured in 2018.

(e) Gross premiums written and gross policyholder benefits

(i) Premium Income

	2019	2018
Direct premiums	**$ 25,419**	$ 26,083
Assumed reinsurance premiums	**17,847**	13,901
Total	**$ 43,266**	$ 39,984

(ii) Policyholder Benefits

	2019	2018
Direct	**$ 19,643**	$ 17,830
Assumed reinsurance	**18,126**	14,527
Total	**$ 37,769**	$ 32,357

(f) Actuarial Assumptions

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Improvement scales for life insurance and annuitant mortality are updated periodically based on population and industry studies, product specific considerations, as well as professional guidance. In addition, appropriate provisions have been made for future mortality deterioration on term insurance.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables.

Morbidity

The Company uses industry developed experience tables modified to reflect emerging Company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Property and casualty reinsurance

Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

14. Insurance and Investment Contract Liabilities (cont'd)

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (note 9(c)).

Expenses

Contractual policy expenses (e.g. sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the Canadian Asset Liability Method as inflation is assumed to be correlated with new money interest rates.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company's most significant exposures are in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of term for renewable term policies in Canada and Reinsurance. Industry experience has guided the Company's assumptions for these products as the Company's own experience is very limited.

Utilization of elective policy options

There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on Company or industry experience when it exists and when not on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features

Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is the Company's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability on shareholders' earnings is reflected in the changes in best estimate assumptions above.

(g) Risk Management

(i) Insurance risk

Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions including mortality, persistency, longevity, morbidity, expense variations and investment returns.

The Company is in the business of accepting risk associated with insurance contract liabilities. The objective of the Company is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of the Company's underwriting strategy guidelines, and through the use of reinsurance arrangements.

The following provides information about the Company's insurance contract liabilities sensitivities to management's best estimate of the approximate impact as a result of changes in assumptions used to determine the Company's liability associated with these contracts.

	Increase (decrease) in net earnings	
	2019	2018
Mortality – 2% increase	**$ (279)**	$ (270)
Annuitant mortality – 2% decrease	**$ (601)**	$ (457)
Morbidity – 5% adverse change	**$ (253)**	$ (271)
Investment returns		
Parallel shift in yield curve		
1% increase	**$ –**	$ –
1% decrease	**$ –**	$ –
Change in interest rates		
1% increase	**$ 175**	$ 115
1% decrease	**$ (619)**	$ (465)
Change in equity values		
10% increase	**$ 87**	$ 73
10% decrease	**$ (129)**	$ (266)
Change in best estimate return assumptions for equities		
1% increase	**$ 509**	$ 476
1% decrease	**$ (585)**	$ (539)
Expenses – 5% increase	**$ (125)**	$ (128)
Policy termination and renewal – 10% adverse change	**$ (813)**	$ (649)

Concentration risk may arise from geographic regions, accumulation of risks and market risk. The concentration of insurance risk before and after reinsurance by geographic region is described below.

	2019			2018		
	Gross liability	**Reinsurance assets**	**Net**	Gross liability	Reinsurance assets	Net
Canada	**$ 74,939**	**$ 251**	**$ 74,688**	$ 68,252	$ 149	$ 68,103
United States	**43,689**	**15,103**	**28,586**	42,913	285	42,628
Europe	**57,549**	**5,353**	**52,196**	57,266	5,692	51,574
Total	**$ 176,177**	**$ 20,707**	**$ 155,470**	$ 168,431	$ 6,126	$ 162,305

(ii) Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance, and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

15. Segregated Funds and Other Structured Entities

The Company offers segregated fund products in Canada, the U.S. and Europe that are referred to as segregated funds, separate accounts and unit-linked funds in the respective region. These funds are contracts issued by insurers to segregated fund policyholders where the benefit is directly linked to the performance of the investments, the risks or rewards of the fair value movements and net investment income is realized by the segregated fund policyholders. The segregated fund policyholders are required to select the segregated funds that hold a range of underlying investments. While the Company has legal title to the investments, there is a contractual obligation to pass along the investment results to the segregated fund policyholder and the Company segregates these investments from those of the Company.

In Canada and the U.S., the segregated fund and separate account assets are legally separated from the general assets of the Company under the terms of the policyholder agreement and cannot be used to settle obligations of the Company. In Europe, the assets of the funds are functionally and constructively segregated from those of the Company. As a result of the legal and constructive arrangements of these funds, the assets and liabilities of these funds are presented as line items within the Consolidated Balance Sheets titled investments on account of segregated fund policyholders and with an equal liability titled investment and insurance contracts on account of segregated fund policyholders.

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, the Company has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are $1,147 at December 31, 2019 ($864 at December 31, 2018).

Within the Consolidated Statements of Earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the Consolidated Balance Sheets. As these amounts do not directly impact the revenues and expenses of the Company, these amounts are not included separately in the Consolidated Statements of Earnings.

Segregated Funds Guarantee Exposure

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds. While these products are similar to mutual funds, there is a key difference from mutual funds as the segregated funds have certain guarantee features that protect the segregated fund policyholder from market declines in the underlying investments. These guarantees are the Company's primary exposure on these funds. The Company accounts for these guarantees within insurance and investment contract liabilities within the consolidated financial statements. In addition to the Company's exposure on the guarantees, the fees earned by the Company on these products are impacted by the market value of these funds.

In Canada, the Company offers retail segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits.

In the U.S., the Company offers group variable annuities with GMDB and guaranteed minimum withdrawal benefits (GMWB) through GWL&A. For the standalone GMDB business, most are a return of premium on death with the guarantee expiring at age 70.

In Europe, the Company offers UWP products through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products, but include pooling of policyholders' funds and minimum credited interest rates.

The Company also offers a GMWB product in Canada, the U.S., and Germany, and previously offered GMWB product in Ireland. Certain GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2019, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $3,332 ($4,169 at December 31, 2018). The decrease was primarily due to U.S. business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019.

The following presents further details of the investments, determined in accordance with the relevant statutory reporting requirements of each region of the Company's operations, on account of segregated fund policyholders:

(a) Investments on account of segregated fund policyholders

	2019	2018
Cash and cash equivalents	$ 12,501	$ 13,458
Bonds	44,973	42,142
Mortgage loans	2,670	2,746
Stocks and units in unit trusts	104,330	89,853
Mutual funds	55,779	50,956
Investment properties	12,986	12,319
	233,239	211,474
Accrued income	373	380
Other liabilities	(3,737)	(3,191)
Non-controlling mutual funds interest	1,147	864
Total	$ 231,022	$ 209,527

(b) Investment and insurance contracts on account of segregated fund policyholders

	2019	2018
Balance, beginning of year	**$ 209,527**	$ 217,357
Additions (deductions):		
Policyholder deposits	**24,685**	24,475
Net investment income	**3,331**	3,611
Net realized capital gains on investments	**4,265**	4,876
Net unrealized capital gains (losses) on investments	**19,658**	(16,757)
Unrealized gains (losses) due to changes in foreign exchange rates	**(6,539)**	5,472
Policyholder withdrawals	**(24,721)**	(26,271)
Business acquisition	**–**	950
Change in Segregated Fund investment in General Fund	**(4)**	69
Change in General Fund investment in Segregated Fund	**105**	(219)
Net transfer from General Fund	**23**	21
Non-controlling mutual funds interest	**283**	(738)
Transfer from assets held for sale	**409**	–
Assets held for sale (note 4)	**–**	(3,319)
Total	**21,495**	(7,830)
Balance, end of year	**$ 231,022**	$ 209,527

(c) Investment income on account of segregated fund policyholders

	2019	2018
Net investment income	**$ 3,331**	$ 3,611
Net realized capital gains on investments	**4,265**	4,876
Net unrealized capital gains (losses) on investments	**19,658**	(16,757)
Unrealized gains (losses) due to changes in foreign exchange rates	**(6,539)**	5,472
Total	**20,715**	(2,798)
Change in investment and insurance contracts liability on account of segregated fund policyholders	**20,715**	(2,798)
Net	**$ –**	$ –

(d) Investments on account of segregated fund policyholders by fair value hierarchy level (note 10)

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments on account of segregated fund policyholders [1]	**$ 146,861**	**$ 73,173**	**$ 13,988**	**$ 234,022**

(1) Excludes other liabilities, net of other assets, of $3,000.

	2018			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [1]	$ 131,603	$ 67,199	$ 13,235	$ 212,037
Investments on account of segregated fund policyholders held for sale [2]	3,297	5	9	3,311
Total investments on account of segregated fund policyholders measured at fair value	$ 134,900	$ 67,204	$ 13,244	$ 215,348

(1) Excludes other liabilities, net of other assets, of $2,510.

(2) Excludes other assets, net of other liabilities, of $8.

During 2019, certain foreign stock holdings valued at $153 have been transferred from Level 1 to Level 2 ($1,842 were transferred from Level 2 to Level 1 at December 31, 2018) primarily based on the Company's change in use of inputs in addition to quoted prices in active markets for certain foreign stock holdings at year end. Level 2 assets include those assets where fair value is not available from normal market pricing sources, where inputs are utilized in addition to quoted prices in active markets and where the Company does not have access to the underlying asset details within an investment fund.

As at December 31, 2019, $8,471 ($7,770 at December 31, 2018) of the segregated funds were invested in funds managed by related parties IG Wealth Management and Mackenzie Investments, members of the Power Financial group of companies (note 26).

15. Segregated Funds and Other Structured Entities (cont'd)

The following presents additional information about the Company's investments on account of segregated fund policyholders for which the Company has utilized Level 3 inputs to determine fair value:

	2019			2018		
	Investments on account of segregated fund policyholders	**Investments on account of segregated fund policyholders held for sale**	**Total**	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total
Balance, beginning of year	**$ 13,235**	**$ 9**	**$ 13,244**	$ 12,572	$ –	$ 12,572
Change in accounting policy [1]	**136**	**–**	**136**	–	–	–
Revised balance, beginning of year	**13,371**	**9**	**13,380**	12,572	–	12,572
Total gains (losses) included in segregated fund investment income	**141**	**(1)**	**140**	404	–	404
Purchases	**760**	**–**	**760**	651	–	651
Sales	**(284)**	**(8)**	**(292)**	(425)	–	(425)
Transfers into Level 3	**–**	**–**	**–**	51	–	51
Transfers out of Level 3	**–**	**–**	**–**	(9)	–	(9)
Transferred to assets held for sale	**–**	**–**	**–**	(9)	9	–
Balance, end of year	**$ 13,988**	**$ –**	**$ 13,988**	$ 13,235	$ 9	$ 13,244

(1) The segregated funds adopted IFRS 16 which resulted in equal and offsetting right-of-use assets and lease liabilities of $136 being recorded in investment properties and other liabilities within investments on account of segregated fund policyholders as of January 1, 2019. The adoption of IFRS 16 had no net impact on investments on account of segregated fund policyholders as of January 1, 2019.

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

In addition to the segregated funds, the Company has interests in a number of structured unconsolidated entities including mutual funds, open-ended investment companies, and unit trusts. These entities are created as investment strategies for its unit-holders based on the directive of each individual fund.

Some of these funds are managed by related parties of the Company and the Company receives management fees related to these services. Management fees can be variable due to performance of factors – such as markets or industries – in which the fund invests. Fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management which is affected by prevailing market conditions, and the inflow and outflow of client assets.

Factors that could cause assets under management and fees to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue.

During 2019, fee and other income earned by the Company resulting from the Company's interests in segregated funds and other structured entities was $4,919 ($4,786 during 2018).

Included within other assets (note 13) at December 31, 2019 is $957 ($733 at December 31, 2018) of investments by the Company in bonds and stocks of Putnam sponsored funds and $135 ($110 at December 31, 2018) of investments in stocks of sponsored unit trusts in Europe.

16. Debentures and Other Debt Instruments

	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Short-term				
Commercial paper and other short-term debt instruments with interest rates from 1.828% to 2.089% (2.511% to 2.693% at December 31, 2018), unsecured	$ 130	$ 130	$ 135	$ 135
Revolving credit facility with interest equal to LIBOR plus 0.70% (U.S. $230; U.S. $250 at December 31, 2018), unsecured	299	299	340	340
Total short-term	429	429	475	475
Capital:				
Current				
Lifeco				
4.65% Debentures due August 13, 2020, unsecured	500	508	500	516
Long-term				
Lifeco				
6.74% Debentures due November 24, 2031, unsecured	194	278	194	261
6.67% Debentures due March 21, 2033, unsecured	393	557	393	522
5.998% Debentures due November 16, 2039, unsecured	342	487	342	442
3.337% Debentures due February 28, 2028, unsecured	498	526	497	502
2.50% Debentures due April 18, 2023, unsecured, (500 euro)	728	788	778	837
1.75% Debentures due December 7, 2026, unsecured, (500 euro)	725	785	774	781
	2,880	3,421	2,978	3,345
Canada Life				
6.40% subordinated debentures due December 11, 2028, unsecured	100	128	100	126
Canada Life Capital Trust (CLCT)				
7.529% due June 30, 2052, unsecured, face value $150	159	221	159	209
Great-West Life & Annuity Insurance Capital, LP				
6.625% Deferrable debentures due November 15, 2034, unsecured U.S. $175), redeemed during the year	–	–	235	266
Great-West Lifeco Finance 2018 LP				
Senior notes due May 17, 2028, unsecured (U.S. $300), bearing an interest rate of 4.047%	388	430	405	415
Senior notes due May 17, 2048, unsecured (U.S. $500), bearing an interest rate of 4.581%	643	749	673	685
	1,031	1,179	1,078	1,100
Great-West Lifeco Finance (Delaware) LP				
Senior notes due June 3, 2047, unsecured (U.S. $700), bearing an interest rate of 4.15%	894	993	934	888
Total long-term	5,564	6,450	5,984	6,450
Total	$ 5,993	$ 6,879	$ 6,459	$ 6,925

On December 10, 2019, Great-West Life & Annuity Insurance Capital, LP redeemed all $232 (U.S. $175) aggregate principal amount 6.625% deferrable debentures due November 15, 2034 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest up to but excluding the redemption date.

On February 28, 2018, the Company issued $500 principal amount 3.337% debentures at par, maturing on February 28, 2028. Interest on the debentures is payable semi-annually in arrears on February 28 and August 28, commencing August 28, 2018 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to November 28, 2027 in whole or in part at the greater of the Canada Yield Price and par, and on or after November 28, 2027 in whole or in part at par, together in each case with accrued and unpaid interest.

On May 17, 2018, Great-West Lifeco Finance 2018, LP issued $384 (U.S. $300) aggregate principal amount 4.047% senior notes due May 17, 2028 and $640 (U.S. $500) aggregate principal amount 4.581% senior notes due May 17, 2048. The tranches of senior notes are fully and unconditionally guaranteed by Lifeco.

Capital Trust Securities

CLCT, a trust established by Canada Life, had issued $150 of Canada Life Capital Securities – Series B (CLiCS – Series B), the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $150.

Distributions and interest on the capital trust securities are classified as financing charges in the Consolidated Statements of Earnings (note 17). The fair value for capital trust securities is determined by the bid-ask price. Refer to note 9 for financial instrument risk management disclosures.

Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time.

17. Financing Charges

Financing charges consist of the following:

	2019	2018
Operating charges:		
Interest on operating lines and short-term debt instruments	$ 12	$ 10
Financial charges:		
Interest on long-term debentures and other debt instruments	243	182
Interest on capital trust securities	11	11
Other	19	18
	273	211
Total	$ 285	$ 221

18. Other Liabilities

	2019	2018
Pension and other post-employment benefits (note 24)	$ 1,520	$ 1,331
Lease liabilities	585	–
Bank overdraft	379	457
Deferred income reserves	380	441
Other	1,825	1,626
Total	$ 4,689	$ 3,855

Total other liabilities of $2,204 ($2,083 at December 31, 2018) are expected to be realized within 12 months from the reporting date. This amount excludes deferred income reserves, the changes in which are noted below.

Deferred income reserves	2019	2018
Balance, beginning of year	$ 441	$ 303
Additions [1]	70	200
Amortization	(81)	(61)
Changes in foreign exchange	(15)	11
Disposals	(35)	(12)
Balance, end of year	$ 380	$ 441

(1) During 2018, a change in estimate of $154 was recognized related to certain single premium contracts.

	2019		
Lease liabilities	Property	Equipment	Total
Opening balance, January 1, 2019 (note 2)	$ 545	$ 6	$ 551
Additions	124	1	125
Modifications	(22)	–	(22)
Lease payments	(72)	(2)	(74)
Changes in foreign exchange rates	(17)	–	(17)
Interest	22	–	22
Balance, end of year	$ 580	$ 5	$ 585

The following table presents the contractual undiscounted cash flows for lease obligations:

	2019
One year or less	$ 83
Over one year to two years	78
Over two years to three years	66
Over three years to four years	56
Over four years to five years	53
Over five years	417
Total undiscounted lease obligations	$ 753

19. Non-Controlling Interests

The Company has a controlling equity interest in Great-West Life, London Life, Canada Life, GWL&A, and Putnam at December 31, 2019 and December 31, 2018.

Non-controlling interests attributable to participating account surplus is the proportion of the equity attributable to the participating account of the Company's subsidiaries.

Non-controlling interests in subsidiaries also include Nippon Life Insurance Company's (Nippon Life) interest in PanAgora, a subsidiary of Putnam, and non-controlling interests for the issued and outstanding shares of Putnam and PanAgora held by employees of the respective companies. During 2018, the Company acquired Nippon Life's interest in PanAgora.

(a) The non-controlling interests of Great-West Life, London Life, Canada Life, GWL&A and Putnam and their subsidiaries recorded in the Consolidated Statements of Earnings and other comprehensive income are as follows:

	2019	2018
Net earnings attributable to participating account before policyholder dividends		
Great-West Life	$ 150	$ 155
London Life	919	902
Canada Life	302	273
GWL&A	3	2
	1,374	1,332
Policyholder dividends		
Great-West Life	(166)	(167)
London Life	(880)	(862)
Canada Life	(315)	(320)
GWL&A	(3)	(3)
	(1,364)	(1,352)
Net earnings (loss) – participating account	10	(20)
Non-controlling interests in subsidiaries	5	1
Total	$ 15	$ (19)

The non-controlling interests of Great-West Life, London Life, Canada Life, GWL&A and Putnam and their subsidiaries recorded in other comprehensive income (loss) for the year ended December 31, 2019 was $30 ($(27) for the year ended December 31, 2018).

(b) The carrying value of non-controlling interests consists of the following:

	2019	2018
Participating account surplus in subsidiaries:		
Great-West Life	$ 595	$ 608
London Life	1,866	1,827
Canada Life	284	288
GWL&A	14	14
Total	$ 2,759	$ 2,737
Non-controlling interests in subsidiaries	$ 107	$ 138

20. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares

Unlimited Common Shares

Issued and outstanding and fully paid

	2019		2018	
	Number	Carrying value	Number	Carrying value
First Preferred Shares				
Series F, 5.90% Non-Cumulative	**7,740,032**	**$ 194**	7,740,032	$ 194
Series G, 5.20% Non-Cumulative	**12,000,000**	**300**	12,000,000	300
Series H, 4.85% Non-Cumulative	**12,000,000**	**300**	12,000,000	300
Series I, 4.50% Non-Cumulative	**12,000,000**	**300**	12,000,000	300
Series L, 5.65% Non-Cumulative	**6,800,000**	**170**	6,800,000	170
Series M, 5.80% Non-Cumulative	**6,000,000**	**150**	6,000,000	150
Series N, Non-Cumulative 5-Year Rate Reset	**8,524,422**	**213**	8,524,422	213
Series O, Non-Cumulative Floating Rate	**1,475,578**	**37**	1,475,578	37
Series P, 5.40% Non-Cumulative	**10,000,000**	**250**	10,000,000	250
Series Q, 5.15% Non-Cumulative	**8,000,000**	**200**	8,000,000	200
Series R, 4.80% Non-Cumulative	**8,000,000**	**200**	8,000,000	200
Series S, 5.25% Non-Cumulative	**8,000,000**	**200**	8,000,000	200
Series T, 5.15% Non-Cumulative	**8,000,000**	**200**	8,000,000	200
Total	**108,540,032**	**$ 2,714**	108,540,032	$ 2,714
Common shares				
Balance, beginning of year	**987,739,408**	**$ 7,283**	988,722,659	$ 7,260
Purchased and cancelled under Substantial Issuer Bid	**(59,700,974)**	**(2,000)**	–	–
Excess of redemption proceeds over stated capital per Substantial Issuer Bid	**–**	**1,628**	–	–
Share issuance – Qualifying Holdco Alternative per Substantial Issuer Bid	**595,747,641**	**2,306**	–	–
Cancellation of Shares – Qualifying Holdco Alternative per Substantial Issuer Bid	**(595,747,641)**	**(3,610)**	–	–
Purchased and cancelled under Normal Course Issuer Bid	**(2,000,000)**	**(66)**	(2,127,300)	(69)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	**–**	**53**	–	53
Exercised and issued under stock option plan	**1,242,752**	**39**	1,144,049	39
Balance, end of year	**927,281,186**	**$ 5,633**	987,739,408	$ 7,283

Preferred Shares

The Series F, 5.90% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series G, 5.20% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series H, 4.85% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series I, 4.50% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series L, 5.65% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series M, 5.80% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series N, Non-Cumulative 5-Year Rate Reset First Preferred Shares carry an annual fixed non-cumulative dividend rate of 2.176% up to but excluding December 31, 2020 and are redeemable at the option of the Company on December 31, 2020 and on December 31 every five years thereafter for $25.00 per share plus all declared and unpaid dividends up to but excluding the date of redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series N share conditions, each Series N share is convertible into one Series O share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter.

The Series O, Non-Cumulative Floating Rate First Preferred Shares carry a floating non-cumulative dividend rate equal to the relevant Government of Canada Treasury Bill rate plus 1.30% and are redeemable at the option of the Company for $25.50 per share, unless the shares are redeemed on December 31, 2020 or on December 31 in each fifth year thereafter in which case the redemption price will be $25.00 per share, plus in each case all declared and unpaid dividends up to but excluding the date of redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series O share conditions, each Series O share is convertible into one Series N share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter.

The Series P, 5.40% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share plus a premium if redeemed prior to March 31, 2021, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series Q, 5.15% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share plus a premium if redeemed prior to September 30, 2021, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series R, 4.80% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25.00 per share plus a premium if redeemed prior to December 31, 2021, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series S, 5.25% Non-Cumulative First Preferred Shares are redeemable at the option of the Company for $25.00 per share plus a premium if redeemed prior to June 30, 2023, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series T, 5.15% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after June 30, 2022 for $25.00 per share plus a premium if redeemed prior to June 30, 2026, together with all declared and unpaid dividends up to but excluding the date of redemption.

Common Shares

Normal Course Issuer Bid

On January 28, 2019, the Company announced a normal course issuer bid commencing February 1, 2019 and terminating January 31, 2020 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices.

On March 4, 2019, the Company announced a substantial issuer bid (the Offer) pursuant to which the Company offered to purchase for cancellation up to $2,000 of its common shares from shareholders for cash. The Offer commenced on March 8, 2019 and expired on April 12, 2019. On April 17, 2019, the Company purchased and subsequently cancelled 59,700,974 common shares under the Offer at a price of $33.50 per share for an aggregate purchase price of $2,000. The excess paid over the average carrying value under the Offer was $1,628 and was recognized as a reduction to accumulated surplus. Transaction costs of $3 were incurred in connection with the Offer and charged to accumulated surplus.

As part of the substantial issuer bid, Power Financial and IGM participated in the Offer. IGM tendered its Lifeco shares proportionately. Power Financial tendered a portion of its Lifeco common shares on a proportionate basis and all remaining Lifeco common shares on a non-proportionate basis and this did not impact Power Financial's voting control of the Company. Power Financial and IGM effected their tender offers through a Qualifying Holdco Alternative, which the Company also offered to other shareholders, to assist them in achieving certain Canadian tax objectives. Under the Qualifying Holdco Alternative, the Corporation issued and subsequently cancelled 595,747,641 shares which resulted in a net decrease in share capital of $1,304 with a corresponding increase in accumulated surplus.

In December 2019, the Company repurchased and subsequently cancelled 2,000,000 common shares pursuant to its normal course issuer bid at a cost of $66 (2,127,300 during 2018 under the previous normal course issuer bid at a cost of $69). The Company's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value of stated capital was $53 and was recognized as a reduction to equity ($53 during 2018 under the previous normal course issuer bid).

Subsequent Event

On January 17, 2020, the Company terminated its previous normal course issuer bid and announced a new normal course issuer bid commencing January 22, 2020 and terminating January 21, 2021 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices.

21. Earnings Per Common Share

The following provides the reconciliation between basic and diluted earnings per common share:

	2019	2018
Earnings		
Net earnings	$ 2,492	$ 3,094
Preferred share dividends	(133)	(133)
Net earnings – common shareholders	$ 2,359	$ 2,961
Number of common shares		
Average number of common shares outstanding	946,003,629	988,588,610
Add: Potential exercise of outstanding stock options	522,755	510,961
Average number of common shares outstanding – diluted basis	946,526,384	989,099,571
Basic earnings per common share	$ 2.494	$ 2.996
Diluted earnings per common share	$ 2.493	$ 2.994
Dividends per common share	$ 1.652	$ 1.556

22. Capital Management

(a) Policies and Objectives

Managing capital is the continual process of establishing and maintaining the quantity and quality of capital appropriate for the Company and ensuring capital is deployed in a manner consistent with the expectations of the Company's stakeholders. For these purposes, the Board considers the key stakeholders to be the Company's shareholders, policyholders and holders of subordinated liabilities in addition to the relevant regulators in the various jurisdictions where the Company and its subsidiaries operate.

The Company manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of the Company's capital management strategy are:

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of the Company ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholders' value in the context of the Company's operational risks and strategic plans.

The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan.

The capital planning process is the responsibility of the Company's Chief Financial Officer. The capital plan is approved by the Company's Board of Directors on an annual basis. The Board of Directors reviews and approves all capital transactions undertaken by management.

The target level of capitalization for the Company and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to the Company, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of the Company with a high degree of confidence.

(b) Regulatory Capital

In Canada, OSFI has established a regulatory capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries.

The Life Insurance Capital Adequacy Test (LICAT) Ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer, defined by OSFI, is the aggregate of all defined capital requirements multiplied by a scalar of 1.05. The total capital resources are provided by the sum of Available Capital, Surplus Allowance and Eligible Deposits.

The following provides a summary of the LICAT information and ratios for Great-West Life:

	2019	2018
Tier 1 Capital	**$ 11,952**	$ 12,455
Tier 2 Capital	**3,637**	3,686
Total Available Capital	**15,589**	16,141
Surplus Allowance & Eligible Deposits	**12,625**	10,665
Total Capital Resources	**$ 28,214**	$ 26,806
Base Solvency Buffer (includes 1.05 scalar)	**$ 20,911**	$ 19,165
Total LICAT Ratio (OSFI Supervisory Target = 100%) (1)	**135%**	140%

(1) Total Ratio (%) = (Total Capital Resources / Base Solvency Buffer (after 1.05 scalar))

For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2019 and December 31, 2018, all European regulated entities met the capital and solvency requirements as prescribed under Solvency II.

GWL&A is subject to the risk-based capital regulatory regime in the U.S. Other foreign operations and foreign subsidiaries of the Company are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2019 and December 31, 2018, the Company maintained capital levels above the minimum local regulatory requirements in each of its foreign operations.

23. Share-Based Payments

(a) The Company has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Lifeco and its affiliates. The Company's Human Resources Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Beginning in 2019, new option grants will vest over a period of four years, and have a maximum exercise period of ten years. Prior to 2019, options generally vested over a period of five years, and had a maximum exercise period of ten years. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee. The maximum number of Lifeco common shares that may be issued under the Plan is currently 65,000,000.

During 2019, 2,699,500 common share options were granted (2,127,300 during 2018). The weighted average fair value of common share options granted during 2019 was $2.86 per option ($1.18 in 2018). The fair value of each common share option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2019: dividend yield 5.45% (4.55% in 2018), expected volatility 18.63% (8.75% in 2018), risk-free interest rate 1.86% (2.09% in 2018), and expected life of eight years (eight in 2018).

The following summarizes the changes in options outstanding and the weighted average exercise price:

	2019		2018	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**14,057,195**	**$ 32.49**	13,400,064	$ 32.10
Granted	**2,699,500**	**30.33**	2,127,300	34.21
Exercised	**(1,242,752)**	**26.71**	(1,144,049)	30.62
Forfeited/expired	**(135,604)**	**34.12**	(326,120)	34.02
Outstanding, end of year	**15,378,339**	**$ 32.57**	14,057,195	$ 32.49
Options exercisable at end of year	**9,653,016**	**$ 32.32**	8,680,938	$ 30.95

The weighted average share price at the date of exercise of stock options for the year ended December 31, 2019 was $32.29 ($33.46 in 2018).

Compensation expense due to the Plan transactions accounted for as equity-settled share-based payments of $5 after-tax in 2019 ($5 after-tax in 2018) has been recognized in the Consolidated Statements of Earnings.

The following summarizes information on the ranges of exercise prices including weighted average remaining contractual life at December 31, 2019:

	Outstanding			**Exercisable**		
Exercise price ranges	**Options**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options**	**Weighted average exercise price**	**Expiry**
$23.16 – $36.87	449,120	0.51	31.63	448,140	31.63	2020
$27.16 – $36.87	770,220	1.25	29.67	770,220	29.67	2021
$23.16 – $36.87	1,258,938	2.24	26.86	1,258,938	26.86	2022
$27.13 – $36.87	1,677,020	3.31	30.87	1,677,020	30.87	2023
$30.28 – $36.87	1,862,700	4.31	32.69	1,862,700	32.69	2024
$35.62 – $36.63	1,729,479	5.18	35.67	1,420,015	35.67	2025
$34.68 – $35.52	2,107,562	6.16	34.68	1,322,603	34.68	2026
$36.87 – $36.87	1,285,600	7.16	36.87	530,980	36.87	2027
$32.99 – $34.21	1,700,400	8.17	34.20	354,000	34.20	2028
$30.28 – $32.50	2,537,300	9.16	30.32	8,400	30.28	2029

23. Share-Based Payments (cont'd)

(b) To promote greater alignment of interests between the Directors and Lifeco's shareholders, the Company and certain of its subsidiaries have established mandatory Deferred Share Unit Plans and/or voluntary Deferred Share Unit Plans (the "Mandatory DSU Plans" and the "Voluntary DSU Plans" respectively) in which the Directors of the Company participate. Under the Mandatory DSU Plans, each Director who is a resident of Canada or the United States must receive 50% of his or her annual Board retainer in the form of Deferred Share Units (DSUs). Under the Voluntary DSU Plans, each Director may elect to receive the balance of his or her annual Board retainer and Board Committee fees entirely in the form of DSUs, entirely in cash, or equally in cash and DSUs. In both cases, the number of DSUs granted is determined by dividing the amount of remuneration payable to the Director by the weighted average trading price per Lifeco common share on the Toronto Stock Exchange (TSX) for the last five trading days of the preceding fiscal quarter. Directors receive additional DSUs for dividends payable on the Company's common shares based on the value of a DSU at the dividend payment date. DSUs are redeemable when an individual ceases to be a Director, or as applicable, an officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the weighted average trading price per Lifeco common share on the TSX for the last five trading days preceding the date of redemption. In 2019, $6 in Directors' fees were used to acquire DSUs ($5 in 2018). At December 31, 2019, the carrying value of the DSU liability is $43 ($34 in 2018) recorded within other liabilities.

(c) Certain employees of the Company are entitled to receive Performance Share Units (PSUs). Under these PSU plans, these employees are granted PSUs equivalent to the Company's common shares vesting over a three-year period. Employees receive additional PSUs in respect of dividends payable on the common shares based on the value of a PSU at that time. At the maturity date, employees receive cash representing the value of the PSU at this date. The Company uses the fair-value based method to account for the PSUs granted to employees under the plan. For the year ended December 31, 2019, the Company recognized compensation expense of $59 ($29 in 2018) for the PSU plans recorded in operating and administrative expenses in the Consolidated Statements of Earnings. At December 31, 2019, the carrying value of the PSU liability is $86 ($60 in 2018) recorded within other liabilities.

(d) The Company's Employee Share Ownership Plan (ESOP) is a voluntary plan where eligible employees can contribute up to 5% of their previous year's eligible earnings to purchase common shares of Great-West Lifeco Inc. The Company matches 50% of the total employee contributions. The contributions from the Company vest immediately and are expensed. For the year ended December 31, 2019, the Company recognized compensation expense of $12 ($11 in 2018) for the ESOP recorded in operating and administrative expenses in the Consolidated Statements of Earnings.

(e) Putnam sponsors the Putnam Investments, LLC Equity Incentive Plan. Under the terms of the Equity Incentive Plan, Putnam is authorized to grant or sell Class B Shares of Putnam (the Putnam Class B Shares), subject to certain restrictions, and to grant options to purchase Putnam Class B Shares (collectively, the Awards) to certain senior management and key employees of Putnam at fair value at the time of the award. Fair value is determined under the valuation methodology outlined in the Equity Incentive Plan. Awards vest over a period of up to five years and are specified in the individual's award letter. Holders of Putnam Class B Shares are not entitled to vote other than in respect of certain matters in regards to the Equity Incentive Plan and have no rights to convert their shares into any other securities. The number of Putnam Class B Shares that may be subject to Awards under the Equity Incentive Plan is limited to 10,555,555.

During 2019, Putnam granted 2,544,222 (1,159,000 in 2018) restricted Class B common shares to certain members of senior management and key employees.

Compensation expense recorded for the year ended December 31, 2019 related to restricted Class B common shares and Class B stock options earned was $20 ($20 in 2018) and is recorded in operating and administrative expenses in the Consolidated Statements of Earnings.

(f) Certain employees of PanAgora, a subsidiary of Putnam, are eligible to participate in the PanAgora Management Equity Plan under which Class C Shares of PanAgora and options and stock appreciation rights on Class C Shares of PanAgora may be issued. Holders of PanAgora Class C Shares are not entitled to vote and have no rights to convert their shares into any other securities. The number of PanAgora Class C Shares may not exceed 20% of the equity of PanAgora on a fully exercised and converted basis.

Compensation expense recorded for the year ended December 31, 2019 related to restricted Class C Shares and stock appreciation rights was $14 in 2019 ($13 in 2018) and is included as a component of operating and administrative expenses in the Consolidated Statements of Earnings.

24. Pension Plans and Other Post-Employment Benefits

Characteristics, Funding and Risk

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. For most plans, active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits in accordance with the terms of the plans. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets.

The defined benefit plans of the Company's subsidiaries are closed to new entrants with plans in several geographies also closed to future defined benefit accruals. New hires are eligible only for defined contribution benefits. Active plan participants in defined benefit plans closed to future defined benefit accruals are eligible to accrue defined contribution benefits. The Company's defined benefit plan exposure will continue to be reduced in future years.

The defined contribution pension plans provide pension benefits based on accumulated employee and subsidiary company contributions. Subsidiary company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. These plans are closed to new hires and were previously amended to limit which employees could become eligible to receive benefits. The amount of some of the post-employment benefits other than pensions depends on future cost escalation. These post-employment benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets.

The Company's subsidiaries have pension and benefit committees or a trusteed arrangement that provides oversight for the benefit plans of the Company's subsidiaries. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements of the Company's subsidiaries. Significant changes to the subsidiary company's benefit plans require approval from that Company's Board of Directors.

The Company's subsidiaries' funding policy for the funded pension plans is to make contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit pension plan asset, the Company determines if an economic benefit exists in the form of potential reductions in future contributions by the Company, from the payment of expenses from the plan and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Company to the typical risks faced by defined benefit plans such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Company.

24. Pension Plans and Other Post-Employment Benefits (cont'd)

The following reflects the financial position of the Company's subsidiaries contributory and non-contributory defined benefit plans:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-employment benefits	
	2019	2018	**2019**	2018
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	**$ 6,484**	$ 6,670	**$ –**	$ –
Interest income	**210**	206	**–**	–
Actual return over (less than) interest income	**663**	(338)	**–**	–
Employer contributions	**176**	176	**20**	19
Employee contributions	**20**	13	**–**	–
Benefits paid	**(266)**	(350)	**(20)**	(19)
Settlements	**(113)**	(7)	**–**	–
Administrative expenses	**(10)**	(8)	**–**	–
Net transfer out	**(13)**	(8)	**–**	–
Foreign exchange rate changes	**(179)**	130	**–**	–
Fair value of plan assets, end of year	**$ 6,972**	$ 6,484	**$ –**	$ –
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	**$ 7,189**	$ 7,401	**$ 370**	$ 400
Current service cost	**76**	110	**2**	2
Interest cost	**234**	228	**14**	14
Employee contributions	**20**	13	**–**	–
Benefits paid	**(266)**	(350)	**(20)**	(19)
Plan amendments	**(1)**	6	**–**	–
Curtailments and termination benefits	**(3)**	(3)	**–**	–
Settlements	**(150)**	(8)	**–**	–
Actuarial loss (gain) on financial assumption changes	**942**	(292)	**29**	(19)
Actuarial gain on demographic assumption changes	**(20)**	(85)	**(5)**	(9)
Actuarial loss (gain) arising from member experience	**14**	26	**(1)**	(1)
Net transfer out	**(13)**	(8)	**–**	–
Foreign exchange rate changes	**(186)**	151	**(1)**	2
Defined benefit obligation, end of year	**$ 7,836**	$ 7,189	**$ 388**	$ 370
Asset (liability) recognized on the Consolidated Balance Sheets				
Funded status of plans – surplus (deficit)	**$ (864)**	$ (710)	**$ (388)**	$ (370)
Unrecognized amount due to asset ceiling	**(37)**	(103)	**–**	–
Asset (liability) recognized on the Consolidated Balance Sheets	**$ (901)**	$ (813)	**$ (388)**	$ (370)
Recorded in:				
Other assets (note 13)	**$ 231**	$ 148	**$ –**	$ –
Other liabilities (note 18)	**(1,132)**	(961)	**(388)**	(370)
Asset (liability) recognized on the Consolidated Balance Sheets	**$ (901)**	$ (813)	**$ (388)**	$ (370)
Analysis of defined benefit obligation				
Wholly or partly funded plans	**$ 7,513**	$ 6,886	**$ –**	$ –
Wholly unfunded plans	**$ 323**	$ 303	**$ 388**	$ 370

Under IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Company must assess whether each pension plan's asset has economic benefit to the Company through future contribution reductions, from the payment of expenses from the plan, or surplus refunds; in the event the Company is not entitled to a benefit, a limit or 'asset ceiling' is required on the balance. The following provides a breakdown of the changes in the asset ceiling:

	Defined benefit pension plans	
	2019	2018
Change in asset ceiling		
Asset ceiling, beginning of year	**$ 103**	$ 92
Interest on asset ceiling	**4**	3
Change in asset ceiling	**(70)**	8
Asset ceiling, end of year	**$ 37**	$ 103

(b) Pension and Other Post-Employment Benefits Expense

The total pension and other post-employment benefit expense included in operating expenses and other comprehensive income are as follows:

	All pension plans		Other post-employment benefits	
	2019	2018	**2019**	2018
Defined benefit current service cost	**$ 96**	$ 123	**$ 2**	$ 2
Defined contribution current service cost	**118**	104	**–**	–
Employee contributions	**(20)**	(13)	**–**	–
Employer current service cost	**194**	214	**2**	2
Administrative expense	**10**	8	**–**	–
Plan amendments	**(1)**	6	**–**	–
Curtailments	**(3)**	(2)	**–**	–
Settlements	**(37)**	(1)	**–**	–
Net interest cost	**28**	25	**14**	14
Expense – profit or loss	**191**	250	**16**	16
Actuarial (gain) loss recognized	**936**	(351)	**23**	(29)
Return on assets (greater) less than assumed	**(663)**	338	**–**	–
Change in the asset ceiling	**(70)**	8	**–**	–
Re-measurements – other comprehensive (income) loss	**203**	(5)	**23**	(29)
Total expense (income) including re-measurements	**$ 394**	$ 245	**$ 39**	$ (13)

(c) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2019	2018
Equity securities	**43%**	41%
Debt securities	**47%**	49%
Real estate	**8%**	8%
Cash and cash equivalents	**2%**	2%
Total	**100%**	100%

No plan assets are directly invested in the Company's or related parties' securities. Plan assets include investments in segregated funds and other funds managed by subsidiaries of the Company of $6,031 at December 31, 2019 and $5,501 at December 31, 2018, of which $5,961 ($5,431 at December 31, 2018) are included on the Consolidated Balance Sheets. Plan assets do not include any property occupied or other assets used by the Company.

24. Pension Plans and Other Post-Employment Benefits (cont'd)

(d) Details of Defined Benefit Obligation

(i) Portion of Defined Benefit Obligation Subject to Future Salary Increases

	Defined benefit pension plans		Other post-employment benefits	
	2019	2018	**2019**	2018
Benefit obligation without future salary increases	**$ 7,179**	$ 6,581	**$ 388**	$ 370
Effect of assumed future salary increases	**657**	608	**–**	–
Defined benefit obligation	**$ 7,836**	$ 7,189	**$ 388**	$ 370

The other post-employment benefits are not subject to future salary increases.

(ii) Portion of Defined Benefit Obligation Without Future Pension Increases

	Defined benefit pension plans		Other post-employment benefits	
	2019	2018	**2019**	2018
Benefit obligation without future pension increases	**$ 7,221**	$ 6,567	**$ 388**	$ 370
Effect of assumed future pension increases	**615**	622	**–**	–
Defined benefit obligation	**$ 7,836**	$ 7,189	**$ 388**	$ 370

The other post-employment benefits are not subject to future pension increases.

(iii) Maturity Profile of Plan Membership

	Defined benefit pension plans		Other post-employment benefits	
	2019	2018	**2019**	2018
Actives	**40%**	38%	**15%**	19%
Deferred vesteds	**19%**	23%	**n/a**	n/a
Retirees	**41%**	39%	**85%**	81%
Total	**100%**	100%	**100%**	100%
Weighted average duration of defined benefit obligation	**18.5 years**	17.9 years	**11.7 years**	11.4 years

(e) Cash Flow Information

	Pension plans	Other post-employment benefits	Total
Expected employer contributions for 2020:			
Funded (wholly or partly) defined benefit plans	$ 123	$ –	$ 123
Unfunded plans	16	21	37
Defined contribution plans	120	–	120
Total	**$ 259**	**$ 21**	**$ 280**

(f) Actuarial Assumptions and Sensitivities

(i) Actuarial Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2019	2018	**2019**	2018
To determine benefit cost:				
Discount rate – past service liabilities	**3.4%**	3.1%	**3.8%**	3.5%
Discount rate – future service liabilities	**3.8%**	3.4%	**4.4%**	3.8%
Rate of compensation increase	**3.0%**	3.1%	**–**	–
Future pension increases [1]	**1.4%**	1.3%	**–**	–
To determine defined benefit obligation:				
Discount rate – past service liabilities	**2.6%**	3.4%	**3.1%**	3.8%
Rate of compensation increase	**2.9%**	3.0%	**–**	–
Future pension increases [1]	**1.3%**	1.4%	**–**	–
Medical cost trend rates:				
Initial medical cost trend rate			**4.7%**	4.8%
Ultimate medical cost trend rate			**4.1%**	4.1%
Year ultimate trend rate is reached			**2039**	2040

(1) Represents the weighted average of plans subject to future pension increases.

(ii) Sample Life Expectancies Based on Mortality Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2019	2018	**2019**	2018
Sample life expectancies based on mortality assumption:				
Male				
Age 65 in fiscal year	**22.6**	22.6	**22.4**	22.3
Age 65 for those age 35 in the fiscal year	**24.6**	24.7	**23.9**	24.0
Female				
Age 65 in fiscal year	**24.7**	24.7	**24.7**	24.7
Age 65 for those age 35 in the fiscal year	**26.7**	26.7	**26.2**	26.2

The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty, and judgment is required in establishing this assumption. As mortality assumptions are significant in measuring the defined benefit obligation, the mortality assumptions applied by the Company take into consideration such factors as age, gender and geographic location, in addition to an estimation of future improvements in longevity.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

The calculation of the defined benefit obligation is sensitive to the mortality assumptions. The effect of a one-year increase in life expectancy would be an increase in the defined benefit obligation of $264 for the defined benefit pension plans and $15 for other post-employment benefits.

(iii) Impact of Changes to Assumptions on Defined Benefit Obligation

	1% increase		1% decrease	
	2019	2018	**2019**	2018
Defined benefit pension plans:				
Impact of a change to the discount rate	**$ (1,242)**	$ (1,109)	**$ 1,630**	$ 1,444
Impact of a change to the rate of compensation increase	**311**	277	**(284)**	(252)
Impact of a change to the rate of inflation	**598**	526	**(541)**	(477)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	**27**	26	**(23)**	(23)
Impact of a change to the discount rate	**(41)**	(38)	**50**	46

To measure the impact of a change in an assumption, all other assumptions were held constant. It is expected that there would be interaction between at least some of the assumptions.

25. Accumulated Other Comprehensive Income

	2019							
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized foreign exchange gains (losses) on euro debt designated as hedge of the net investment in foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Re-measurements on defined benefit pension and other post-employment benefit plans	Total	Non-controlling interest	Shareholders
Balance, beginning of year	**$ 1,797**	**$ (143)**	**$ 22**	**$ 11**	**$ (670)**	**$ 1,017**	**$ 28**	**$ 1,045**
Other comprehensive income (loss)	**(561)**	**100**	**163**	**2**	**(226)**	**(522)**	**(33)**	**(555)**
Income tax	**–**	**(14)**	**(31)**	**–**	**47**	**2**	**3**	**5**
	(561)	**86**	**132**	**2**	**(179)**	**(520)**	**(30)**	**(550)**
Balance, end of year	**$ 1,236**	**$ (57)**	**$ 154**	**$ 13**	**$ (849)**	**$ 497**	**$ (2)**	**$ 495**

	2018							
	Unrealized foreign exchange gains on translation of foreign operations	Unrealized foreign exchange gains (losses) on euro debt designated as hedge of the net investment in foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Re-measurements on defined benefit pension and other post-employment benefit plans	Total	Non-controlling interest	Shareholders
Balance, beginning of year	$ 1,031	$ (100)	$ 109	$ 44	$ (699)	$ 385	$ 1	$ 386
Other comprehensive income (loss)	766	(50)	(108)	(46)	34	596	32	628
Income tax	–	7	21	13	(5)	36	(5)	31
	766	(43)	(87)	(33)	29	632	27	659
Balance, end of year	$ 1,797	$ (143)	$ 22	$ 11	$ (670)	$ 1,017	$ 28	$ 1,045

26. Related Party Transactions

Power Financial, which is incorporated and domiciled in Canada, is the Company's parent and has voting control of the Company. The Company is related to other members of the Power Financial group including IGM Financial Inc., a company in the financial services sector along with its subsidiaries IG Wealth Management, Mackenzie Financial and Investment Planning Council and Pargesa, a holding company with substantial holdings in a diversified industrial group based in Europe.

(a) Principal subsidiaries

The consolidated financial statements of the Company include the operations of the following subsidiaries and their subsidiaries:

Company	Incorporated in	Primary business operation	% Held
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100.00%
London Life Insurance Company	Canada	Insurance and wealth management	100.00%
The Canada Life Assurance Company	Canada	Insurance and wealth management	100.00%
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100.00%
Putnam Investments, LLC	United States	Financial services	100.00%[1]

(1) Lifeco holds 100% of the voting shares and 96.47% of the total outstanding shares.

(b) Transactions with related parties included in the consolidated financial statements

As part of the substantial issuer bid, Power Financial and IGM participated in the Offer. IGM tendered its Lifeco shares proportionately. Power Financial tendered a portion of its Lifeco common shares on a proportionate basis and all remaining Lifeco common shares on a non-proportionate basis and this did not impact Power Financial's voting control of the Company. Power Financial and IGM effected their tender offers through a Qualifying Holdco Alternative, which the Company also offered to other shareholders, to assist them in achieving certain Canadian tax objectives.

In the normal course of business, Great-West Life and Putnam enter into various transactions with related companies which include providing insurance benefits and sub-advisory services to other companies within the Power Financial group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM and its subsidiaries, a member of the Power Financial group of companies, certain administrative and information technology services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided at market terms and conditions.

Segregated funds of the Company were invested in funds managed by IG Wealth Management and Mackenzie Investments. The Company also has interests in mutual funds, open-ended investment companies and unit trusts. Some of these funds are managed by related parties of the Company and the Company receives management fees related to these services. All transactions were provided at market terms and conditions (note 15).

The Company held debentures issued by IGM; the interest rates and maturity dates are as follows:

	2019	2018
3.44%, matures January 26, 2027	$ 21	$ 10
6.65%, matures December 13, 2027	16	16
7.45%, matures May 9, 2031	14	13
7.00%, matures December 31, 2032	13	13
4.56%, matures January 25, 2047	22	20
4.115%, matures December 9, 2047	10	9
4.174%, matures July 13, 2048	5	5
Total	**$ 101**	$ 86

During 2019, the Company purchased debentures from IGM with a total market value at December 31, 2019 of $10 ($14 at December 31, 2018).

During 2019, the Company purchased residential mortgages of $11 from IGM ($61 in 2018).

The Company holds investments in Portag3 Ventures Limited Partnership, Portag3 Ventures II Limited Partnership, Wealthsimple Europe S.a.r.l. and other entities which invest in the FinTech sector. These investments were made in partnership with Power Financial, IGM and, in certain circumstances, outside investors.

The Company provides asset management, employee benefits and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of the Company and its subsidiaries. These transactions were provided at market terms and conditions.

There were no significant outstanding loans or guarantees and no material loans or guarantees issued during 2019 or 2018. There were no provisions for uncollectible amounts from related parties during 2019 and 2018.

(c) Key management compensation

Key management personnel constitute those individuals that have the authority and responsibility for planning, directing and controlling the activities of Lifeco, directly or indirectly, including any Director. The individuals that comprise the key management personnel are the Board of Directors as well as certain key management and officers.

The following describes all compensation paid to, awarded to, or earned by each of the key management personnel for services rendered in all capacities to the Company and its subsidiaries:

	2019	2018
Salary	$ 20	$ 17
Share-based awards	14	12
Option-based awards	6	5
Annual non-equity incentive plan compensation	24	23
Pension value	1	5
Total	**$ 65**	$ 62

27. Income Taxes

(a) Components of the income tax expense

(i) Income tax recognized in Consolidated Statements of Earnings

Current income tax

	2019	2018
Total current income tax	**$ 196**	$ 321

Deferred income tax

	2019	2018
Origination and reversal of temporary differences	**$ (29)**	$ 52
Effect of changes in tax rates or imposition of new income taxes	**(11)**	(2)
Tax expense arising from unrecognized tax losses and tax credits	**217**	16
Total deferred income tax	**$ 177**	$ 66
Total income tax expense	**$ 373**	$ 387

(ii) Income tax recognized in other comprehensive income (note 25)

	2019	2018
Current income tax expense (recovery)	**$ 7**	$ (2)
Deferred income tax recovery	**(9)**	(34)
Total	**$ (2)**	$ (36)

(iii) Income tax recognized in Consolidated Statements of Changes in Equity

	2019	2018
Current income tax expense	**$ 78**	$ –
Deferred income tax expense (recovery)	**23**	(16)
Total	**$ 101**	$ (16)

(b) The effective income tax rate reported in the Consolidated Statements of Earnings varies from the combined Canadian federal and provincial income tax rate of 27% for the following items:

	2019		2018	
Earnings before income taxes	**$ 2,880**		$ 3,462	
Combined basic Canadian federal and provincial tax rate	**778**	**27.00%**	935	27.00%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	**(166)**	**(5.76)**	(216)	(6.24)
Lower effective income tax rates on income not subject to tax in Canada	**(315)**	**(10.93)**	(313)	(9.03)
Impact of rate changes on deferred income taxes	**(11)**	**(0.38)**	(2)	(0.06)
Other [1]	**87**	**3.02**	(17)	(0.49)
Total income tax expense and effective income tax rate	**$ 373**	**12.95%**	$ 387	11.18%

(1) Includes the impact of a decrease in the recognized deferred income tax asset of one of the Company's subsidiaries due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses which resulted in a $199 charge and increased the effective income tax rate by 6.91 points. This was partially offset by a $101 benefit due to the resolution of an outstanding issue with a foreign tax authority which reduced the effective income tax rate by 3.51 points.

(c) Composition and changes in net deferred income tax assets are as follows:

	2019						
	Insurance and investment contract liabilities	Portfolio investments	Losses carried forward	Intangible assets	Tax credits	Other	Total
Balance, beginning of year	**$ (1,387)**	**$ (359)**	**$ 1,357**	**$ (479)**	**$ 363**	**$ 276**	**$ (229)**
Recognized in Statements of Earnings	**362**	**(171)**	**(244)**	**(58)**	**(44)**	**(22)**	**(177)**
Recognized in Statements of Comprehensive Income	**–**	**(25)**	**–**	**–**	**–**	**34**	**9**
Recognized in Statements of Changes in Equity	**(20)**	**–**	**–**	**–**	**–**	**(3)**	**(23)**
Acquired in business acquisitions	**–**	**–**	**(1)**	**(1)**	**–**	**–**	**(2)**
Foreign exchange rate changes and other	**62**	**21**	**(47)**	**16**	**(23)**	**(30)**	**(1)**
Balance, end of year	**$ (983)**	**$ (534)**	**$ 1,065**	**$ (522)**	**$ 296**	**$ 255**	**$ (423)**

	2018						
	Insurance and investment contract liabilities	Portfolio investments	Losses carried forward	Intangible assets	Tax credits	Other	Total
Balance, beginning of year	$ (976)	$ (602)	$ 1,132	$ (401)	$ 391	$ 192	$ (264)
Recognized in Statements of Earnings	(395)	227	129	(63)	(44)	80	(66)
Recognized in Statements of Comprehensive Income	–	40	–	–	–	(6)	34
Recognized in Statements of Changes in Equity	9	–	–	–	–	7	16
Acquired in business acquisitions	41	–	–	–	–	(8)	33
Foreign exchange rate changes and other	(66)	(24)	96	(15)	16	11	18
Balance, end of year	$ (1,387)	$ (359)	$ 1,357	$ (479)	$ 363	$ 276	$ (229)

	2019	2018
Recorded on Consolidated Balance Sheets:		
Deferred tax assets	**$ 693**	$ 981
Deferred tax liabilities	**(1,116)**	(1,210)
Total	**$ (423)**	$ (229)

A deferred income tax asset is recognized for deductible temporary differences and unused losses and carryforwards only to the extent that realization of the related income tax benefit through future taxable profits is probable.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets. The Company's annual financial planning process provides a significant basis for the measurement of deferred income tax assets.

Management assesses the recoverability of the deferred income tax assets carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets as of December 31, 2019 are recoverable.

At December 31, 2019, the Company has recognized a deferred tax asset of $1,065 ($1,357 at December 31, 2018) on tax loss carryforwards totaling $6,832 ($8,568 in 2018). Of this amount, $5,814 expire between 2020 and 2039 while $1,018 have no expiry date. The Company will realize this benefit in future years through a reduction in current income taxes payable.

One of the Company's subsidiaries has had a history of losses. The subsidiary has a net deferred income tax asset balance of $478 (U.S. $367) as at December 31, 2019, comprised principally of net operating losses and future deductions related to goodwill. During the year ended December 31, 2019, management determined that a $199 (U.S. $151) decrease in the recognized deferred income tax asset is appropriate due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses generated in the earliest loss years. The deferred income tax asset decrease resulted in a charge to income tax expense of $199 (U.S. $151) in the Consolidated Statements of Earnings. Management has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated U.S. income tax return will generate sufficient taxable income to utilize the unused U.S. losses and deductions for which a deferred tax asset has been recognized.

The Company has not recognized a deferred tax asset of $231 ($37 in 2018) on tax loss carryforwards totaling $1,252 ($179 in 2018). Of this amount, $1,173 expire between 2020 and 2039 while $79 have no expiry date. In addition, the Company has not recognized a deferred tax asset of $16 (nil in 2018) on other temporary differences of $78 (nil in 2018) associated with investments in subsidiaries, branches, and associates.

A deferred income tax liability has not been recognized in respect of the temporary differences associated with investments in subsidiaries, branches and associates as the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

28. Operating and Administrative Expenses

	2019	2018
Salaries and other employee benefits	**$ 3,474**	$ 3,296
General and administrative [1]	**1,541**	1,641
Interest expense on leases	**22**	–
Amortization of fixed assets	**125**	96
Depreciation of right-of-use assets	**69**	–
Total [2]	**$ 5,231**	$ 5,033

(1) Expenses related to short-term leases of $10 and low-value leases of $3 are included within general and administrative expenses.

(2) Includes operating and administrative expenses recognized upon the completion of the reinsurance transaction with Protective Life (note 3).

29. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end-user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 9 discloses the credit quality of the Company's exposure to counterparties. Credit risk equivalent amounts are presented net of collateral received, including initial margin on exchange-traded derivatives, of $156 as at December 31, 2019 ($113 at December 31, 2018).

(a) The following summarizes the Company's derivative portfolio and related credit exposure using the following definitions of risk as prescribed by OSFI:

Maximum Credit Risk	The total replacement cost of all derivative contracts with positive values.
Future Credit Exposure	The potential future credit exposure is calculated based on a formula prescribed by OSFI. The factors prescribed by OSFI for this calculation are based on derivative type and duration.
Credit Risk Equivalent	The sum of maximum credit risk and the potential future credit exposure less any collateral held.
Risk Weighted Equivalent	Represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

	2019				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 12	$ –	$ –	$ –	$ –
Futures – short	17	–	–	–	–
Swaps	3,179	197	38	206	60
Options purchased	244	–	1	1	–
	3,452	197	39	207	60
Foreign exchange contracts					
Forward contracts	2,573	43	47	76	7
Cross-currency swaps	13,039	209	899	997	266
	15,612	252	946	1,073	273
Other derivative contracts					
Equity contracts	74	–	4	4	–
Futures – long	13	–	–	–	–
Futures – short	774	–	–	–	–
Other forward contracts	1,709	2	94	94	9
	2,570	2	98	98	9
Total	$ 21,634	$ 451	$ 1,083	$ 1,378	$ 342

	2018				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 72	$ –	$ –	$ –	$ –
Swaps	2,716	118	34	143	42
Options purchased	351	43	1	43	8
	3,139	161	35	186	50
Foreign exchange contracts					
Forward contracts	2,098	8	42	49	5
Cross-currency swaps	11,737	219	794	910	241
	13,835	227	836	959	246
Other derivative contracts					
Equity contracts	618	8	6	6	–
Futures – long	12	–	–	–	–
Futures – short	1,059	8	14	22	2
Other forward contracts	951	13	91	98	10
	2,640	29	111	126	12
Total	$ 19,614	$ 417	$ 982	$ 1,271	$ 308

(b) The following provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2019				
	Notional Amount				Total estimated fair value
	1 year or less	Over 1 year to 5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 9	$ 3	$ –	$ 12	$ –
Futures – short	10	7	–	17	–
Swaps	185	653	2,312	3,150	161
Options purchased	35	184	25	244	–
	239	847	2,337	3,423	161
Foreign exchange contracts					
Forward contracts	1,334	–	–	1,334	15
Cross-currency swaps	299	2,395	10,345	13,039	(1,135)
	1,633	2,395	10,345	14,373	(1,120)
Other derivative contracts					
Equity contracts	74	–	–	74	–
Futures – long	13	–	–	13	–
Futures – short	774	–	–	774	(2)
Other forward contracts	1,709	–	–	1,709	2
	2,570	–	–	2,570	–
Fair value hedges					
Foreign exchange forward contracts	74	–	–	74	2
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	29	29	10
Net investment hedges					
Foreign exchange forward contracts	641	524	–	1,165	17
Total	$ 5,157	$ 3,766	$ 12,711	$ 21,634	$ (930)

29. Derivative Financial Instruments (cont'd)

	2018				
	Notional Amount				Total estimated fair value
	1 year or less	Over 1 year to 5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 46	$ 26	$ –	$ 72	$ –
Swaps	118	456	2,112	2,686	78
Options purchased	47	225	79	351	43
	211	707	2,191	3,109	121
Foreign exchange contracts					
Forward contracts	1,058	–	–	1,058	(16)
Cross-currency swaps	560	1,968	9,209	11,737	(1,224)
	1,618	1,968	9,209	12,795	(1,240)
Other derivative contracts					
Equity contracts	618	–	–	618	(8)
Futures – long	12	–	–	12	–
Futures – short	1,059	–	–	1,059	6
Other forward contracts	951	–	–	951	13
	2,640	–	–	2,640	11
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	30	30	8
Net investment hedges					
Foreign exchange forward contracts	524	516	–	1,040	(45)
Total	$ 4,993	$ 3,191	$ 11,430	$ 19,614	$ (1,145)

Futures contracts included in the above are exchange traded contracts; all other contracts are over-the-counter.

(c) ***Interest Rate Contracts***

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities. Interest-rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Company the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities, and insurance and investment contract liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities.

The ineffective portion of the cash flow hedges during 2019, which includes interest rate contracts and foreign exchange contracts, and the anticipated net gains (losses) reclassified out of accumulated other comprehensive income within the next twelve months is nil. The maximum time frame for which variable cash flows are hedged is 50 years.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage potential credit risk impact of significant declines in certain equity markets.

30. Legal Provisions and Contingent Liabilities

The Company and its subsidiaries are from time-to-time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. Provisions are established if, in management's judgment, it is probable a payment will be required and the amount of the payment can be reliably estimated. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Company. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Company. Actual results could differ from management's best estimates.

A subsidiary of the Company in the United States is a defendant in an action in relation to its role as collateral manager of a collateralized debt obligation brought by an institution involved in the collateralized debt obligation. The resolution of this matter will not have a material adverse effect on the consolidated financial position of the Company.

Subsidiaries of the Company in the United States are defendants in legal actions, including class actions, relating to the administration of their staff retirement plans, or to the costs and features of certain of their retirement or fund products. Management believes the claims are without merit and will be aggressively defending these actions. Based on the information presently known these actions will not have a material adverse effect on the consolidated financial position of the Company.

A subsidiary of the Company, as reinsurer, is involved in an arbitration relating to the interpretation of certain provisions of a reinsurance treaty and the alleged underreporting of claims and overpayment of premium. Based on information presently known, it is difficult to predict the outcome of this matter with certainty, but this matter is not expected to have a material adverse effect on the consolidated financial position of the Company.

31. Commitments

(a) Letters of Credit

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities is U.S. $2,257 of which U.S. $1,772 were issued as of December 31, 2019.

The Reinsurance operation periodically uses letters of credit as collateral under certain reinsurance contracts for on balance sheet policy liabilities.

(b) Investment Commitments

Commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions were $1,042 as at December 31, 2019, with $1,006 maturing within one year, $19 maturing within two years and $17 maturing within three years.

(c) Pledged Assets

In addition to the assets pledged by the Company disclosed elsewhere in the consolidated financial statements:

(i) The amount of assets included in the Company's balance sheet which have a security interest by way of pledging is $1,456 ($1,464 at December 31, 2018) in respect of reinsurance agreements.

In addition, under certain reinsurance contracts, bonds presented in portfolio investments are held in trust and escrow accounts. Assets are placed in these accounts pursuant to the requirements of certain legal and contractual obligations to support contract liabilities assumed.

(ii) The Company has pledged, in the normal course of business, $75 ($76 at December 31, 2018) of assets of the Company for the purpose of providing collateral for the counterparty.

32. Segmented Information

The operating segments of the Company are Canada, United States, Europe and Lifeco Corporate. These segments reflect the Company's management structure and internal financial reporting and are aligned to its geographic operations. Each of these segments operates in the financial services industry and the revenues from these segments are derived principally from interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Business activities that are not associated with the specific geographic operations are attributed to the Lifeco Corporate segment.

Transactions between operating segments occur at market terms and conditions and have been eliminated upon consolidation.

The Company has a capital allocation model to measure the performance of the operating segments. The impact of the capital allocation model is included in the segmented information presented below.

(a) Consolidated Net Earnings

	2019				
	Canada	United States [2][3]	Europe	Lifeco Corporate	Total
Income					
Total net premiums	$ 13,505	$ (9,659)	$ 20,664	$ –	$ 24,510
Net investment income					
Regular net investment income	2,785	1,785	1,591	–	6,161
Changes in fair value through profit or loss	3,157	1,371	2,418	–	6,946
Total net investment income	5,942	3,156	4,009	–	13,107
Fee and other income	1,766	3,767	1,548	–	7,081
	21,213	(2,736)	26,221	–	44,698
Benefits and expenses					
Paid or credited to policyholders	16,268	(5,932)	22,755	–	33,091
Other [1]	3,510	2,780	1,854	22	8,166
Financing charges	128	118	36	3	285
Amortization of finite life intangible assets	92	85	47	–	224
Restructuring expenses	–	52	–	–	52
Earnings (loss) before income taxes	1,215	161	1,529	(25)	2,880
Income taxes (recovery)	149	205	25	(6)	373
Net earnings (loss) before non-controlling interests	1,066	(44)	1,504	(19)	2,507
Non-controlling interests	13	3	(1)	–	15
Net earnings (loss)	1,053	(47)	1,505	(19)	2,492
Preferred share dividends	114	–	19	–	133
Net earnings (loss) before capital allocation	939	(47)	1,486	(19)	2,359
Impact of capital allocation	112	(14)	(96)	(2)	–
Net earnings (loss) – common shareholders	$ 1,051	$ (61)	$ 1,390	$ (21)	$ 2,359

(1) Includes commissions, operating and administrative expenses and premium taxes.

(2) Includes the loss on the reinsurance transaction with Protective Life of $247 ($199 after-tax) (note 3).

(3) Includes the impact of the $199 decrease in the deferred income tax asset (note 27).

	2018				
	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	$ 13,093	$ 4,250	$ 18,118	$ –	$ 35,461
Net investment income					
Regular net investment income	2,608	1,836	1,901	13	6,358
Changes in fair value through profit or loss	(1,285)	(890)	(1,431)	–	(3,606)
Total net investment income	1,323	946	470	13	2,752
Fee and other income	1,736	2,603	1,480	–	5,819
	16,152	7,799	20,068	13	44,032
Benefits and expenses					
Paid or credited to policyholders	11,024	4,447	16,597	–	32,068
Other [1]	3,406	2,741	1,832	23	8,002
Financing charges	128	55	37	1	221
Amortization of finite life intangible assets	81	90	41	–	212
Restructuring expenses	–	–	67	–	67
Earnings (loss) before income taxes	1,513	466	1,494	(11)	3,462
Income taxes (recovery)	268	66	56	(3)	387
Net earnings (loss) before non-controlling interests	1,245	400	1,438	(8)	3,075
Non-controlling interests	(21)	2	–	–	(19)
Net earnings (loss)	1,266	398	1,438	(8)	3,094
Preferred share dividends	114	–	19	–	133
Net earnings (loss) before capital allocation	1,152	398	1,419	(8)	2,961
Impact of capital allocation	123	(10)	(108)	(5)	–
Net earnings (loss) – common shareholders	$ 1,275	$ 388	$ 1,311	$ (13)	$ 2,961

(1) Includes commissions, operating and administrative expenses and premium taxes.

(b) Consolidated Total Assets and Liabilities

	2019			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 81,179	$ 32,768	$ 54,840	$ 168,787
Goodwill and intangible assets	5,560	1,990	2,834	10,384
Other assets	3,953	19,421	17,600	40,974
Investments on account of segregated fund policyholders	85,612	31,433	113,977	231,022
Total	$ 176,304	$ 85,612	$ 189,251	$ 451,167

	2019			
	Canada	United States	Europe	Total
Liabilities				
Insurance and investment contract liabilities	$ 74,939	$ 43,689	$ 57,549	$ 176,177
Other liabilities	8,448	5,035	4,942	18,425
Investment and insurance contracts on account of segregated fund policyholders	85,612	31,433	113,977	231,022
Total	$ 168,999	$ 80,157	$ 176,468	$ 425,624

32. Segmented Information (cont'd)

	2018			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 75,647	$ 47,500	$ 54,334	$ 177,481
Assets held for sale	–	–	897	897
Goodwill and intangible assets	5,516	2,130	2,878	10,524
Other assets	3,110	4,495	18,336	25,941
Investments on account of segregated fund policyholders	76,633	31,816	101,078	209,527
Investments on account of segregated fund policyholders held for sale	–	–	3,319	3,319
Total	$ 160,906	$ 85,941	$ 180,842	$ 427,689

	2018			
	Canada	United States	Europe	Total
Liabilities				
Insurance and investment contract liabilities	$ 68,252	$ 42,913	$ 57,266	$ 168,431
Liabilities held for sale	–	–	897	897
Other liabilities	7,863	5,100	5,154	18,117
Investment and insurance contracts on account of segregated fund policyholders	76,633	31,816	101,078	209,527
Investment and insurance contracts on account of segregated fund policyholders held for sale	–	–	3,319	3,319
Total	$ 152,748	$ 79,829	$ 167,714	$ 400,291

33. Subsequent Events

(a) Amalgamation

As a result of the Amalgamation (note 1), effective January 1, 2020, the consolidated financial statements of the Amalgamated Company will include the operations of the following previously separate subsidiaries: Great-West Life, LIG, London Life, CLFC, and Canada Life. The consolidated financial statements of the Company will include the operations of the Amalgamated Company and its subsidiaries. Non-controlling interests attributable to participating account surplus previously recorded in the Great-West Life, London Life, and Canada Life Consolidated Statements of Earnings and Other Comprehensive Income will be recorded in the Amalgamated Company (notes 19, 26(a)).

(b) Sale of Irish Progressive Services International Limited

On February 10, 2020, Irish Life announced the sale of Irish Progressive Services International Limited, a wholly-owned subsidiary whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The proposed transaction will be subject to customary closing conditions including receipt of required regulatory approvals and is expected to be completed in the second half of 2020. The Company expects to recognize a gain related to this transaction. The carrying value and earnings of the business are immaterial to the Company.

34. Comparative Figures

The Company reclassified certain comparative figures for disclosure items to conform to the current year's presentation. These reclassifications had no impact on the total equity or net earnings of the Company.

Independent Auditor's Report

To the Shareholders of Great-West Lifeco Inc.

Opinion

We have audited the consolidated financial statements of Great-West Lifeco Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Paul Stauch.

/s/ **Deloitte LLP**

Chartered Professional Accountants

Winnipeg, Manitoba
February 12, 2020

IGM Financial Inc.

PART D

Management's Discussion and Analysis

PAGE D 2

Financial Statements and Notes

PAGE D 65

Please note that the bottom of each page in Part D contains two different page numbers. A page number with the prefix "D" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by IGM Financial Inc.

The attached documents concerning IGM Financial Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Forward-Looking Statements. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and the financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the years ended December 31, 2019 and 2018 and should be read in conjunction with the audited Consolidated Financial Statements. Commentary in the MD&A as at and for the year ended December 31, 2019 is as of February 14, 2020.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The Consolidated Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars (Note 2 of the Consolidated Financial Statements).

PRINCIPAL HOLDERS OF VOTING SHARES

As at December 31, 2019, Power Financial Corporation (PFC) and Great-West Lifeco Inc. (Lifeco), a subsidiary of PFC, held directly or indirectly 62.1% and 3.9%, respectively, of the outstanding common shares of IGM Financial.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect IGM Financial's current expectations. Forward-looking statements are provided to assist the reader in understanding the Company's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future. Readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Company, as well as the outlook for North American and international economies, for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. While the Company considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

A variety of material factors, many of which are beyond the Company's and its subsidiaries' control, affect the operations, performance and results of the Company, and its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not place undue reliance on forward-looking statements.

Other than as specifically required by applicable Canadian law, the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Company's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this Management's Discussion and Analysis and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

Net earnings available to common shareholders, which is an additional measure in accordance with IFRS, may be subdivided into two components consisting of:

- Adjusted net earnings available to common shareholders; and
- Other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful.

"Adjusted net earnings available to common shareholders", "adjusted diluted earnings per share" (EPS) and "adjusted return on average common equity" (ROE) are non-IFRS financial measures which are used to provide management and investors with additional measures to assess earnings performance. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before interest and taxes" (EBIT), "earnings before interest, taxes, depreciation and amortization before sales commissions" (EBITDA before sales commissions), and "earnings before interest, taxes, depreciation and amortization after sales commissions" (EBITDA after sales commissions) are also non-IFRS financial measures. EBIT, EBITDA before sales commissions and EBITDA after sales commissions are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. The two EBITDA measures have been introduced following the adoption of IFRS 15. EBITDA before sales commissions excludes all mutual fund sales commissions and is comparable to prior periods. EBITDA after sales commissions includes all sales commissions and highlights aggregate cash flows. Other items of a non-recurring nature, or that could make the period-over-period comparison of results from operations less meaningful, are further excluded to arrive at EBITDA before sales commissions and EBITDA after sales commissions. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before income taxes" and "net earnings available to common shareholders" are additional IFRS measures which are used to provide management and investors with additional measures to assess earnings performance. These measures are considered additional IFRS measures as they are in addition to the minimum line items required by IFRS and are relevant to an understanding of the entity's financial performance.

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1 to 4.

IGM FINANCIAL INC.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

IGM Financial Inc. (TSX:IGM) is a leading wealth and asset management company. The Company's principal businesses are Investors Group Inc. and Mackenzie Financial Corporation, each operating distinctly, primarily within the advice segment of the financial services market.

IGM Financial's assets under administration were $190.2 billion as at December 31, 2019, up 11.8% from $170.1 billion at December 31, 2018.

Total assets under management were $166.8 billion at December 31, 2019, the highest level in the history of the Company, compared with $149.1 billion at December 31, 2018, as detailed in Tables 6 and 7. Average total assets under management for the year ended December 31, 2019 were $161.0 billion compared to $156.9 billion in 2018. Average total assets under management for the fourth quarter of 2019 were $164.5 billion compared to $153.0 billion in 2018.

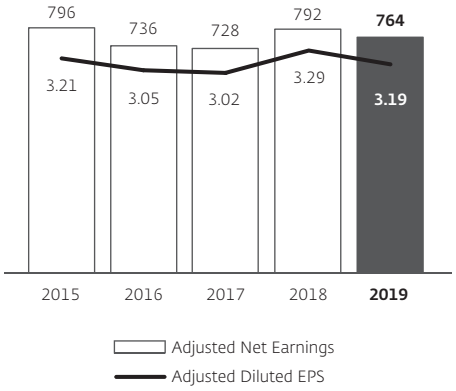
Investment fund assets under management, also at a record high, were $161.8 billion at December 31, 2019 compared with $143.3 billion at December 31, 2018. Average investment fund assets under management for the year ended December 31, 2019 were $155.5 billion compared to $150.5 billion in 2018. Average investment fund assets under management for the fourth quarter of 2019 were $159.5 billion compared to $147.0 billion in 2018.

Net earnings available to common shareholders for the year ended December 31, 2019 were $746.7 million or $3.12 per share compared to net earnings available to common shareholders of $767.3 million or $3.18 per share in 2018, a decrease of 1.9% in earnings per share. Adjusted net earnings available to common shareholders, excluding other items outlined below, for the year ended December 31, 2019 were $763.9 million or $3.19 per share compared to adjusted net earnings available to common shareholders of $791.8 million or $3.29 per share in 2018, a decrease of 3.0% in adjusted earnings per share.

Net earnings available to common shareholders for the three months ended December 31, 2019 were $191.6 million or 80 cents per share compared to net earnings available to common shareholders of $179.9 million or 75 cents per share for the comparative period in 2018. Adjusted net earnings available to common shareholders, excluding other items outlined below, for the three months ended December 31, 2019 were $200.8 million or 84 cents per share compared to adjusted net earnings available to common shareholders of $179.9 million or 75 cents per share in 2018.

Adjusted Net Earnings and Adjusted Net Earnings per Share

For the financial year ($ millions, except per share amounts)



Adjusted net earnings and adjusted net earnings per share excluded the following after-tax amounts:

2015 - a charge related to restructuring and other charges.

2016 - a reduction in income tax estimates related to certain tax filings.

2017 - charges related to restructuring and other, a favourable revaluation of the Company's pension plan obligation, charges representing the Company's proportionate share in Great-West Lifeco Inc.'s one-time charges and restructuring provision.

2018 - charges related to restructuring and other and the premium paid on the early redemption of debentures.

2019 - the Company's proportionate share in Great-West Lifeco Inc.'s one-time charges.

Other items for the year ended December 31, 2019 consisted of:

- A one-time charge of $9.2 million, recorded in the fourth quarter, which represented the Company's proportionate share in Great-West Lifeco Inc.'s after-tax adjustments related to the revaluation of a deferred tax asset, restructuring costs and the net gain on the Scottish Friendly transaction.
- A one-time charge of $8.0 million, recorded in the second quarter, which represented the Company's proportionate share in Great-West Lifeco Inc.'s after-tax loss on the sale of its United States individual life insurance and annuity business.

Other items for the year ended December 31, 2018 consisted of:

- Restructuring and other charges of $16.7 million after-tax ($22.7 million pre-tax) resulting from the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve the Company's offerings and operational effectiveness.
- A premium of $7.8 million after-tax ($10.7 million pre-tax) paid on the early redemption of the $375 million 7.35% debentures on August 10, 2018.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

($ millions)	THREE MONTHS ENDED 2019 DEC. 31	2019 SEP. 30	2018 DEC. 31	TWELVE MONTHS ENDED 2019 DEC. 31	2018 DEC. 31
Adjusted net earnings available to common shareholders – Non-IFRS measure	**$ 200.8**	$ 202.5	$ 179.9	**$ 763.9**	$ 791.8
Proportionate share of associate's one-time charges	**(9.2)**	–	–	**(17.2)**	–
Premium paid on early redemption of debentures, net of tax	**–**	–	–	**–**	(7.8)
Restructuring and other, net of tax	**–**	–	–	**–**	(16.7)
Net earnings available to common shareholders – IFRS	**$ 191.6**	$ 202.5	$ 179.9	**$ 746.7**	$ 767.3
Adjusted net earnings per share[1] available to common shareholders – Non-IFRS measure	**$ 0.84**	$ 0.85	$ 0.75	**$ 3.19**	$ 3.29
Proportionate share of associate's one-time charges	**(0.04)**	–	–	**(0.07)**	–
Premium paid on early redemption of debentures, net of tax	**–**	–	–	**–**	(0.04)
Restructuring and other, net of tax	**–**	–	–	**–**	(0.07)
Net earnings per share[1] available to common shareholders – IFRS	**$ 0.80**	$ 0.85	$ 0.75	**$ 3.12**	$ 3.18
EBITDA before sales commissions – Non-IFRS measure	**$ 336.5**	$ 337.1	$ 296.8	**$ 1,294.0**	$ 1,333.0
Sales-based commissions paid	**(45.2)**	(38.2)	(41.2)	**(165.1)**	(188.5)
EBITDA after sales commissions – Non-IFRS measure	**291.3**	298.9	255.6	**1,128.9**	1,144.5
Sales-based commissions paid subject to amortization	**23.5**	16.3	13.2	**67.2**	55.7
Amortization of capitalized sales commissions	**(6.5)**	(5.9)	(4.3)	**(22.4)**	(14.4)
Amortization of capital, intangible and other assets[2]	**(19.9)**	(19.9)	(14.4)	**(79.5)**	(56.1)
Interest expense[3]	**(27.8)**	(27.7)	(24.1)	**(108.4)**	(110.2)
Adjusted Earnings before income taxes – Non-IFRS measure	**260.6**	261.7	226.0	**985.8**	1,019.5
Proportionate share of associate's one-time charges	**(9.2)**	–	–	**(17.2)**	–
Premium paid on early redemption of debentures	**–**	–	–	**–**	(10.7)
Restructuring and other	**–**	–	–	**–**	(22.7)
Earnings before income taxes	**251.4**	261.7	226.0	**968.6**	986.1
Income taxes	**(59.8)**	(59.2)	(43.9)	**(219.7)**	(210.0)
Perpetual preferred share dividends	**–**	–	(2.2)	**(2.2)**	(8.8)
Net earnings available to common shareholders – IFRS	**$ 191.6**	$ 202.5	$ 179.9	**$ 746.7**	$ 767.3

(1) Diluted earnings per share.

(2) Amortization expense includes amortization on capital assets and intangible assets and in 2019 also includes amortization on right-of-use assets as a result of the Company's adoption of IFRS 16, Leases (fourth quarter - $6.0 million; third quarter - $6.0 million; 2019 - $23.5 million).

(3) Interest expense includes interest on long-term debt and in 2019 also includes interest on leases as a result of the Company's adoption of IFRS 16, Leases (fourth quarter - $1.0 million; third quarter - $1.0 million; 2019 - $4.1 million).

Shareholders' equity was $4.5 billion at December 31, 2019, compared to $4.6 billion at December 31, 2018. Return on average common equity based on adjusted net earnings for the year ended December 31, 2019 was 17.2%, compared with 18.2% for the comparative period in 2018. The quarterly dividend per common share was 56.25 cents in 2019, unchanged from the end of 2018.

2019 DEVELOPMENTS

TRANSFORMATION ACTIVITIES

IGM Financial has previously announced a five-year transformation to modernize its digital platforms and technology infrastructure to enable the company to enhance operations, achieve efficiencies and further improve the service experience for its clients. As part of this transformation effort, we announced two initiatives during the year:

- IGM Financial has selected CIBC Mellon to assume most of its fund services functions. This will add fund administration servicing solutions to the custody and related services that CIBC Mellon already performed for the Company.
- We have chosen Google Cloud to manage our data platform. We are among the first major Canadian financial services companies to move SAP applications and data to the Google Cloud Platform. The migration of the firm's data to a cloud-based environment will enhance operational efficiencies through greater productivity and business agility, and enhanced service levels.

CAPITAL MANAGEMENT ACTIVITIES

IGM Financial initiated a number of capital and liquidity transactions in 2019, including:

- The issuance of $250.0 million 4.206% debentures maturing on March 21, 2050.
- Part of the proceeds from the issuance of the $250.0 million debentures was used to fund the redemption of the $150.0 million issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B on April 30, 2019.
- The Company purchased 2,762,788 shares at a cost of $100 million.

In April 2019, the Company participated on a proportionate basis in the Great-West Lifeco (Lifeco) substantial issuer bid by selling 2,400,255 of its shares for proceeds of $80.4 million. The Company's 4% interest in Lifeco remains substantially unchanged.

PERSONAL CAPITAL

In January 2019, the Company made an additional investment in Personal Capital Corporation (Personal Capital) of $66.8 million resulting in the reclassification of $217.0 million on the Consolidated Balance Sheet from Corporate investments to Investments in associates. As a result, the Company now uses the equity method of accounting for its 24.8% equity interest in Personal Capital.

ADOPTION OF IFRS 16 LEASES

On January 1, 2019, the Company adopted IFRS 16, *Leases*, which resulted in recognition of a right-of-use asset related to the Company's property leases and a corresponding lease obligation. Previously, the Company expensed total lease payments in non-commission expense. Under IFRS 16, lease related expenses are recognized as amortization in non-commission expense and interest in interest expense (Note 2 to the Consolidated Financial Statements).

The adoption of IFRS 16 resulted in a change to timing of non-commission expenses but had no effect on cash flows of the Company.

Non-commission expense in 2019 was $3.8 million lower and interest expense was $4.1 million higher as a result of the adoption of IFRS 16. If IFRS 16 had been applied retrospectively, non-commission expense in 2018 would have been $0.5 million lower and interest expense $4.1 million higher.

IFRS 16 impacted EBITDA as the expenses are now categorized as amortization and interest expenses, which are excluded from EBITDA. Previously, the cash payments were expensed and included within EBITDA.

In 2019, EBITDA before sales commissions increased by $27.3 million to $1,294.0 million as a result of IFRS 16. If IFRS 16 had been applied retroactively, EBITDA before sales commission in 2018, would have increased by $22.9 million to $1,355.9 million.

REPORTABLE SEGMENTS

IGM Financial's reportable segments are:

- IG Wealth Management (IG Wealth Management or IG)
- Mackenzie Investments (Mackenzie Investments or Mackenzie)
- Corporate and Other

These segments, as shown in Tables 2, 3 and 4 reflect the Company's internal financial reporting and performance measurement.

Certain items reflected in Tables 2, 3, and 4 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt and, in 2019 also includes interest expense on leases as a result of the adoption of IFRS 16, Leases. The change in interest expense in the period also resulted from the impact of the following transactions:
  - The redemption of $150 million 6.58% debentures on March 7, 2018;
  - The issuance of $200 million 4.174% debentures on July 11, 2018;
  - The early redemption of $375 million 7.35% debentures on August 10, 2018, and;
  - The issuance of $250 million 4.206% debentures on March 20, 2019.
- *2019 Proportionate share of associate's one-time charges* – consisted of:
  - $9.2 million representing the Company's proportionate share in Great-West Lifeco Inc.'s after-tax adjustments, recorded in the fourth quarter, related to the revaluation of a deferred tax asset, restructuring costs and the net gain on the Scottish Friendly transaction.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q4 2019 VS. Q4 2018

THREE MONTHS ENDED ($ millions)	IG WEALTH MANAGEMENT 2019 DEC. 31	IG WEALTH MANAGEMENT 2018 DEC. 31	MACKENZIE INVESTMENTS 2019 DEC. 31	MACKENZIE INVESTMENTS 2018 DEC. 31	CORPORATE & OTHER 2019 DEC. 31	CORPORATE & OTHER 2018 DEC. 31	TOTAL 2019 DEC. 31	TOTAL 2018 DEC. 31
Revenues								
Fee income	$ 501.0	$ 477.0	$ 207.3	$ 195.1	$ 70.5	$ 71.6	$ 778.8	$ 743.7
Net investment income and other	16.8	11.0	0.6	(3.1)	36.5	39.9	53.9	47.8
	517.8	488.0	207.9	192.0	107.0	111.5	832.7	791.5
Expenses								
Commission	159.6	156.3	73.9	69.7	44.8	46.4	278.3	272.4
Non-Commission[1]	151.9	159.6	92.6	86.9	21.5	22.5	266.0	269.0
	311.5	315.9	166.5	156.6	66.3	68.9	544.3	541.4
Earnings before interest and taxes	$ 206.3	$ 172.1	$ 41.4	$ 35.4	$ 40.7	$ 42.6	288.4	250.1
Interest expense[2]							(27.8)	(24.1)
Proportionate share of associate's one time charges							(9.2)	–
Earnings before income taxes							251.4	226.0
Income taxes							59.8	43.9
Net earnings							191.6	182.1
Perpetual preferred share dividends							–	2.2
Net earnings available to common shareholders							$ 191.6	$ 179.9
Adjusted net earnings available to common shareholders[3]							$ 200.8	$ 179.9

(1) The Company's investment management functions reside at Mackenzie Investments and the cost of investment management activities is allocated proportionately between the segments.

(2) Interest expense includes interest on long-term debt and in 2019 also includes interest on leases of $1.0 million as a result of the Company's adoption of IFRS 16, Leases.

(3) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures. 2019 adjusted net earnings excluded the proportionate share of associate's one-time charges of $9.2 million, which was recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings.

– $8.0 million representing the Company's proportionate share in Great-West Lifeco Inc.'s after-tax loss, recorded in the second quarter, on the sale of its United States individual life insurance and annuity business.

- *2018 Premium paid on early redemption of debentures* – represents the premium paid on the early redemption of the $375 million 7.35% debentures on August 10, 2018.
- *2018 Restructuring and other* – $22.7 million ($16.7 million after-tax) recorded in the third quarter resulted from the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve the Company's offerings and operational effectiveness.
- *Income taxes* – changes in the effective tax rates are shown in Table 5.

  Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings and regularly assesses the overall adequacy of its provision for income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. The effect of changes in management's best estimates reported in adjusted net earnings is reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.
- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares. The decrease in the preferred share dividends reflects the redemption of the $150.0 million in preferred shares on April 30, 2019.

TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – YTD 2019 VS. YTD 2018

	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		CORPORATE & OTHER		TOTAL	
TWELVE MONTHS ENDED ($ millions)	**2019 DEC. 31**	2018 DEC. 31	**2019 DEC. 31**	2018 DEC. 31	**2019 DEC. 31**	2018 DEC. 31	**2019 DEC. 31**	2018 DEC. 31
Revenues								
Fee income	**$ 1,958.8**	$ 1,940.0	**$ 807.6**	$ 806.5	**$ 284.0**	$ 290.7	**$ 3,050.4**	$ 3,037.2
Net investment income and other	**56.2**	46.7	**4.2**	(1.9)	**139.0**	167.1	**199.4**	211.9
	2,015.0	1,986.7	**811.8**	804.6	**423.0**	457.8	**3,249.8**	3,249.1
Expenses								
Commission	**628.8**	623.4	**292.9**	291.1	**179.5**	184.2	**1,101.2**	1,098.7
Non-Commission[1]	**615.9**	597.3	**350.4**	335.1	**88.1**	88.3	**1,054.4**	1,020.7
	1,244.7	1,220.7	**643.3**	626.2	**267.6**	272.5	**2,155.6**	2,119.4
Earnings before interest and taxes	**$ 770.3**	$ 766.0	**$ 168.5**	$ 178.4	**$ 155.4**	$ 185.3	**1,094.2**	1,129.7
Interest expense[2]							**(108.4)**	(110.2)
Proportionate share of associate's one-time charges							**(17.2)**	–
Premium paid on early redemption of debentures							**–**	(10.7)
Restructuring and other							**–**	(22.7)
Earnings before income taxes							**968.6**	986.1
Income taxes							**219.7**	210.0
Net earnings							**748.9**	776.1
Perpetual preferred share dividends							**2.2**	8.8
Net earnings available to common shareholders							**$ 746.7**	$ 767.3
Adjusted net earnings available to common shareholders[3]							**$ 763.9**	$ 791.8

(1) The Company's investment management functions reside at Mackenzie Investments and the cost of investment management activities is allocated proportionately between the segments.

(2) Interest expense includes interest on long-term debt and in 2019 also includes interest on leases of $4.1 million as a result of the Company's adoption of IFRS 16, Leases.

(3) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

Adjusted net earnings exclude other items as follows:

- *2019 – Proportionate share of associate's one-time charges of $17.2 million, which was recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings.*
- *2018 – Premium paid on early redemption of debentures of $10.7 million ($7.8 million after-tax), which was recorded in Interest expense in the Consolidated Statements of Earnings.*
  - *Restructuring and other charges of $22.7 million ($16.7 million after tax), which was recorded in Commission and Non-commission expenses in the Consolidated Statements of Earnings.*

TABLE 4: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q4 2019 VS. Q3 2019

THREE MONTHS ENDED ($ millions)	IG WEALTH MANAGEMENT 2019 DEC. 31	IG WEALTH MANAGEMENT 2019 SEP. 30	MACKENZIE INVESTMENTS 2019 DEC. 31	MACKENZIE INVESTMENTS 2019 SEP. 30	CORPORATE & OTHER 2019 DEC. 31	CORPORATE & OTHER 2019 SEP. 30	TOTAL 2019 DEC. 31	TOTAL 2019 SEP. 30
Revenues								
Fee income	$ 501.0	$ 492.9	$ 207.3	$ 205.0	$ 70.5	$ 71.7	$ 778.8	$ 769.6
Net investment income and other	16.8	15.8	0.6	(1.4)	36.5	32.1	53.9	46.5
	517.8	508.7	207.9	203.6	107.0	103.8	832.7	816.1
Expenses								
Commission	159.6	154.7	73.9	73.0	44.8	44.7	278.3	272.4
Non-Commission[1]	151.9	148.2	92.6	84.2	21.5	21.9	266.0	254.3
	311.5	302.9	166.5	157.2	66.3	66.6	544.3	526.7
Earnings before interest and taxes	$ 206.3	$ 205.8	$ 41.4	$ 46.4	$ 40.7	$ 37.2	288.4	289.4
Interest expense[2]							(27.8)	(27.7)
Proportionate share of associate's one-time charges							(9.2)	–
Earnings before income taxes							251.4	261.7
Income taxes							59.8	59.2
Net earnings							191.6	202.5
Perpetual preferred share dividends							–	–
Net earnings available to common shareholders							$ 191.6	$ 202.5
Adjusted net earnings available to common shareholders[3]							$ 200.8	$ 202.5

(1) The Company's investment management functions reside at Mackenzie Investments and the cost of investment management activities is allocated proportionately between the segments.

(2) Interest expense includes interest on long-term debt and interest on leases as a result of the Company's adoption of IFRS 16, Leases (fourth quarter - $1.0 million; third quarter - $1.0 million)

(3) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures. Fourth quarter adjusted net earnings excluded the proportionate share of associate's one-time charges of $9.2 million, which was recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings.

TABLE 5: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED 2019 DEC. 31	THREE MONTHS ENDED 2019 SEP. 30	THREE MONTHS ENDED 2018 DEC. 31	TWELVE MONTHS ENDED 2019 DEC. 31	TWELVE MONTHS ENDED 2018 DEC. 31
Income taxes at Canadian federal and provincial statutory rates	26.76 %	26.75 %	26.83 %	26.77 %	26.81 %
Effect of:					
Proportionate share of associates' earnings	(3.43)	(2.89)	(3.79)	(3.31)	(3.79)
Tax loss consolidation[1]	(1.36)	(1.32)	(1.56)	(1.41)	(1.40)
Other items	0.83	0.09	(2.07)	0.15	(0.33)
Effective income tax rate – adjusted net earnings	22.80	22.63	19.41	22.20	21.29
Proportionate share of associate's one-time charges	0.99	–	–	0.48	–
Effective income tax rate – net earnings	23.79 %	22.63 %	19.41 %	22.68 %	21.29 %

(1) See Note 26 - Related Party Transactions of the Consolidated Financial Statements included in the 2019 IGM Financial Inc. Annual Report (Annual Financial Statements).

SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT AND ADMINISTRATION

Assets under administration were $190.2 billion at December 31, 2019 compared to $170.1 billion at December 31, 2018, an increase of 11.8%. Total assets under management were $166.8 billion at December 31, 2019 compared to $149.1 billion at December 31, 2018, an increase of 11.9%. Changes in assets under management and administration are detailed in Tables 6 and 7.

Changes in assets under management for IG Wealth Management and Mackenzie Investments are discussed further in each of their respective Review of the Business sections in the MD&A.

TABLE 6: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q4 2019 VS. Q4 2018[1]

	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		INVESTMENT PLANNING COUNSEL		INTERCOMPANY ELIMINATIONS[2]		CONSOLIDATED	
THREE MONTHS ENDED ($ millions)	**2019 DEC. 31**	2018 DEC. 31	**2019 DEC. 31**	2018 DEC. 31	**2019 DEC. 31**	2018 DEC. 31	**2019 DEC. 31**	2018 DEC. 31	**2019 DEC. 31**	2018 DEC. 31
Investment funds										
Mutual funds[3][4]										
Gross sales	**$ 2,251**	$ 2,118	**$ 2,587**	$ 2,328	**$ 147**	$ 229	**$ –**	$ –	**$ 4,985**	$ 4,675
Net sales	**(247)**	(125)	**18**	(146)	**(114)**	(65)	**–**	–	**(343)**	(336)
ETFs										
Net creations	**–**	–	**646**	137	**–**	–	**–**	–	**646**	137
Inter-product eliminations[2]	**–**	–	**(399)**	(82)	**–**	–	**(45)**	56	**(444)**	(26)
Total investment fund net sales	**(247)**	(125)	**265**	(91)	**(114)**	(65)	**(45)**	56	**(141)**	(225)
Sub-advisory, institutional and other accounts										
Net sales	**–**	–	**(86)**	(224)	**–**	–	**14**	75	**(72)**	(149)
Combined net sales	**$ (247)**	$ (125)	**$ 179**	$ (315)	**$ (114)**	$ (65)	**$ (31)**	$ 131	**$ (213)**	$ (374)
Change in total assets under management										
Net sales	**$ (247)**	$ (125)	**$ 179**	$ (315)	**$ (114)**	$ (65)	**$ (31)**	$ 131	**$ (213)**	$ (374)
Investment returns	**2,629**	(5,730)	**1,755**	(4,304)	**140**	(342)	**(39)**	102	**4,485**	(10,274)
Net change in assets	**2,382**	(5,855)	**1,934**	(4,619)	**26**	(407)	**(70)**	233	**4,272**	(10,648)
Beginning assets	**90,779**	88,992	**68,271**	67,347	**5,365**	5,532	**(1,879)**	(2,157)	**162,536**	159,714
Ending assets	**$ 93,161**	$ 83,137	**$ 70,205**	$ 62,728	**$ 5,391**	$ 5,125	**$ (1,949)**	$ (1,924)	**$166,808**	$149,066
Total assets under management consists of:										
Investment funds										
Mutual funds[3]	**$ 93,161**	$ 83,137	**$ 60,838**	$ 53,407	**$ 5,391**	$ 5,125	**$ –**	$ –	**$159,390**	$141,669
ETFs	**–**	–	**4,749**	2,949	**–**	–	**–**	–	**4,749**	2,949
Inter-product eliminations[2]	**–**	–	**(1,596)**	(848)	**–**	–	**(780)**	(488)	**(2,376)**	(1,336)
Total investment funds	**93,161**	83,137	**63,991**	55,508	**5,391**	5,125	**(780)**	(488)	**161,763**	143,282
Sub-advisory, institutional and other accounts	**–**	–	**6,214**	7,220	**–**	–	**(1,169)**	(1,436)	**5,045**	5,784
Ending assets	**$ 93,161**	$ 83,137	**$ 70,205**	$ 62,728	**$ 5,391**	$ 5,125	**$ (1,949)**	$ (1,924)	**$166,808**	$149,066
Assets under administration[1]	**$ 97,277**	$ 86,287	**$ 70,205**	$ 62,728	**$ 27,728**	$ 25,706	**$ (4,972)**	$ (4,633)	**$190,238**	$170,088

(1) Assets under management consists of assets in the Company's funds and pools. Assets under administration consists of assets in Client accounts administered by the Company.

(2) Consolidated results eliminate double counting where business is reflected within multiple segments:

- *Included with Mackenzie's results were advisory mandates to other segments with assets of $1.9 billion at December 31, 2019 (2018 - $1.9 billion) and net redemptions of $31 million for the fourth quarter of 2019 (2018 - net sales of $131 million).*
- *Included in ETFs are mutual fund investments in ETFs totalling $1.6 billion at December 31, 2019 (2018 - $848 million) and net sales of $399 million in the three months ending December 31, 2019 (2018 - $82 million).*

(3) IG Wealth Management and Investment Planning Counsel AUM and net sales include separately managed accounts.

(4) During the fourth quarter of 2019, institutional clients which include Mackenzie mutual funds within their investment offerings made fund allocation changes which resulted in sales of $129 million, redemptions of $165 million and net redemptions of $36 million.

TABLE 7: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2019 VS. 2018[1]

TWELVE MONTHS ENDED ($ millions)	IG WEALTH MANAGEMENT 2019 DEC. 31	IG WEALTH MANAGEMENT 2018 DEC. 31	MACKENZIE INVESTMENTS 2019 DEC. 31	MACKENZIE INVESTMENTS 2018 DEC. 31	INVESTMENT PLANNING COUNSEL 2019 DEC. 31	INVESTMENT PLANNING COUNSEL 2018 DEC. 31	INTERCOMPANY ELIMINATIONS[2] 2019 DEC. 31	INTERCOMPANY ELIMINATIONS[2] 2018 DEC. 31	CONSOLIDATED 2019 DEC. 31	CONSOLIDATED 2018 DEC. 31
Investment funds										
Mutual funds[3][4]										
Gross sales	**$ 8,723**	$ 9,075	**$ 9,886**	$ 9,951	**$ 694**	$ 960	**$ –**	$ –	**$ 19,303**	$ 19,986
Net sales	**(1,089)**	485	**512**	113	**(272)**	(18)	**–**	–	**(849)**	580
ETFs										
Net creations	**–**	–	**1,559**	1,799	**–**	–	**–**	–	**1,559**	1,799
Inter-product eliminations[2]	**–**	–	**(655)**	(530)	**–**	–	**(197)**	(407)	**(852)**	(937)
Total investment fund net sales	**(1,089)**	485	**1,416**	1,382	**(272)**	(18)	**(197)**	(407)	**(142)**	1,442
Sub-advisory, institutional and other accounts[5]										
Net sales	–	–	**(1,894)**	(487)	–	–	**403**	(117)	**(1,491)**	(604)
Combined net sales	**$ (1,089)**	$ 485	**$ (478)**	$ 895	**$ (272)**	$ (18)	**$ 206**	$ (524)	**$ (1,633)**	$ 838
Change in total assets under management										
Net sales	**$ (1,089)**	$ 485	**$ (478)**	$ 895	**$ (272)**	$ (18)	**$ 206**	$ (524)	**$ (1,633)**	$ 838
Investment returns	**11,113**	(5,356)	**7,955**	(2,676)	**538**	(234)	**(231)**	(19)	**19,375**	(8,285)
Net change in assets	**10,024**	(4,871)	**7,477**	(1,781)	**266**	(252)	**(25)**	(543)	**17,742**	(7,447)
Beginning assets	**83,137**	88,008	**62,728**	64,509	**5,125**	5,377	**(1,924)**	(1,381)	**149,066**	156,513
Ending assets	**$ 93,161**	$ 83,137	**$ 70,205**	$ 62,728	**$ 5,391**	$ 5,125	**$ (1,949)**	$ (1,924)	**$166,808**	$149,066
Assets under administration[1]	**$ 97,277**	$ 86,287	**$ 70,205**	$ 62,728	**$ 27,728**	$ 25,706	**$ (4,972)**	$ (4,633)	**$190,238**	$170,088

(1) Assets under management consists of assets in the Company's funds and pools. Assets under administration consists of assets in Client accounts administered by the Company.

(2) Consolidated results eliminate double counting where business is reflected within multiple segments:

– Included with Mackenzie's results were advisory mandates to other segments with assets of $1.9 billion at December 31, 2019 (2018 - $1.9 billion) and net redemptions of $206 million for the twelve months ending December 31, 2019 (2018 - net sales of $524 million).

– Included in ETFs are mutual fund investments in ETFs totalling $1.6 billion at December 31, 2019 (2018 - $848 million) and net sales of $655 million for the twelve months ending December 31, 2019 (2018 - $530 million).

(3) IG Wealth Management and Investment Planning Counsel total AUM and net sales include separately managed accounts.

(4) During 2019, institutional clients which include Mackenzie mutual funds within their investment offerings made fund allocation changes which resulted in sales of $129 million, redemptions of $165 million and net redemptions of $36 million.

During 2018, institutional clients which include Mackenzie mutual funds within their investment offerings made fund allocation changes which resulted in sales of $409 million, redemptions of $807 million and net redemptions of $398 million.

(5) During the third quarter of 2019, MD Financial Management reassigned sub-advisory responsibilities totalling $1.2 billion on mandates advised upon by Mackenzie.

SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 8.

Net Earnings and Earnings per Share – Except as noted in the reconciliation in Table 8, variations in net earnings and total revenues result primarily from changes in average daily mutual fund assets under management. Investment fund assets under management were $149.8 billion in 2017, decreased to $143.3 billion in 2018 and increased to $161.8 billion in 2019, driven largely by changes in financial markets during the period. Average investment fund assets under management for the year ended December 31, 2019 were $155.5 billion compared to $150.5 billion in 2018. The impact on earnings and revenues of changes in average daily investment fund assets under management and other pertinent items are discussed in the Review of Segment Operating Results sections of the MD&A for both IG Wealth Management and Mackenzie.

Total assets under management at December 31, 2019 were $166.8 billion and included investment fund assets under management totalling $161.8 billion. Net earnings in future periods will largely be determined by the level of investment fund assets which will continue to be influenced by global market conditions.

Dividends per Common Share – Annual dividends per common share were $2.25 in 2019, unchanged from 2018 and 2017.

SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 9 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Changes in average daily investment fund assets under management over the eight most recent quarters, as shown in Table 9, largely reflect the impact of changes in domestic and foreign markets and net sales of the Company.

TABLE 8: SELECTED ANNUAL INFORMATION

	2019	2018	2017
Consolidated statements of earnings *($ millions)*			
Revenues			
Fee income	**$ 3,050.4**	$ 3,037.2	$ 3,005.7
Net investment income and other	**199.4**	211.9	167.3
	3,249.8	3,249.1	3,173.0
Expenses	**2,264.0**	2,229.6	2,224.4
	985.8	1,019.5	948.6
Proportionate share of associate's one-time charges	**(17.2)**	–	(14.0)
Premium paid on early redemption of debentures	**–**	(10.7)	–
Restructuring and other	**–**	(22.7)	(195.3)
Pension plan	**–**	–	50.4
Proportionate share of associate's provision	**–**	–	(5.1)
Earnings before income taxes	**968.6**	986.1	784.6
Income taxes	**219.7**	210.0	173.9
Net earnings	**748.9**	776.1	610.7
Perpetual preferred share dividends	**2.2**	8.8	8.8
Net earnings available to common shareholders	**$ 746.7**	$ 767.3	$ 601.9
Reconciliation of Non-IFRS financial measures[1] *($ millions)*			
Adjusted net earnings available to common shareholders – non-IFRS measure	**$ 763.9**	$ 791.8	$ 727.8
Other items:			
Proportionate share of associate's one-time charges	**(17.2)**	–	(14.0)
Premium paid on early redemption of debentures, net of tax	**–**	(7.8)	–
Restructuring and other, net of tax	**–**	(16.7)	(143.6)
Pension plan, net of tax	**–**	–	36.8
Proportionate share of associate's provision	**–**	–	(5.1)
Net earnings available to common shareholders – IFRS	**$ 746.7**	$ 767.3	$ 601.9
Earnings per share *($)*			
Adjusted net earnings available to common shareholders[1]			
– Basic	**$ 3.19**	$ 3.29	$ 3.03
– Diluted	**3.19**	3.29	3.02
Net earnings available to common shareholders			
– Basic	**3.12**	3.19	2.50
– Diluted	**3.12**	3.18	2.50
Dividends per share *($)*			
Common	**$ 2.25**	$ 2.25	$ 2.25
Preferred, Series B	**0.37**	1.48	1.48
Average daily investment fund assets *($ millions)*	**$ 155,532**	$ 150,502	$ 143,735
Total investment fund assets under management *($ millions)*	**$ 161,763**	$ 143,282	$ 149,819
Total assets under management *($ millions)*	**$ 166,808**	$ 149,066	$ 156,513
Total assets under administration *($ millions)*	**$ 190,238**	$ 170,088	$ 179,081
Total corporate assets *($ millions)*	**$ 15,391**	$ 15,609	$ 16,499
Total long-term debt *($ millions)*	**$ 2,100**	$ 1,850	$ 2,175
Outstanding common shares *(thousands)*	**238,294**	240,885	240,666

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in addition to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

TABLE 9: SUMMARY OF QUARTERLY RESULTS

	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Consolidated statements of earnings *($ millions)*								
Revenues								
Management fees	$ 581.2	$ 574.0	$ 567.5	$ 545.2	$ 546.0	$ 573.8	$ 562.8	$ 556.6
Administration fees	104.2	104.5	104.1	101.7	103.3	109.1	107.1	107.6
Distribution fees	93.4	91.1	94.2	89.3	94.4	93.3	89.9	93.3
Net investment income and other	53.9	46.5	46.1	52.9	47.8	55.8	56.2	52.1
	832.7	816.1	811.9	789.1	791.5	832.0	816.0	809.6
Expenses								
Commission	278.3	272.4	275.8	274.7	272.4	270.1	270.1	286.1
Non-commission	266.0	254.3	259.7	274.4	269.0	245.9	252.7	253.1
Interest[1]	27.8	27.7	27.7	25.2	24.1	27.0	28.8	30.3
	572.1	554.4	563.2	574.3	565.5	543.0	551.6	569.5
Earnings before undernoted	260.6	261.7	248.7	214.8	226.0	289.0	264.4	240.1
Proportionate share of associate's one-time charges	(9.2)	–	(8.0)	–	–	–	–	–
Premium paid on early redemption of debentures	–	–	–	–	–	(10.7)	–	–
Restructuring and other	–	–	–	–	–	(22.7)	–	–
Earnings before income taxes	251.4	261.7	240.7	214.8	226.0	255.6	264.4	240.1
Income taxes	59.8	59.2	55.6	45.1	43.9	55.2	58.5	52.4
Net earnings	191.6	202.5	185.1	169.7	182.1	200.4	205.9	187.7
Perpetual preferred share dividends	–	–	–	2.2	2.2	2.2	2.2	2.2
Net earnings available to common shareholders	$ 191.6	$ 202.5	$ 185.1	$ 167.5	$ 179.9	$ 198.2	$ 203.7	$ 185.5
Reconciliation of Non-IFRS financial measures[2] *($ millions)*								
Adjusted net earnings available to common shareholders – non-IFRS measure	$ 200.8	$ 202.5	$ 193.1	$ 167.5	$ 179.9	$ 222.7	$ 203.7	$ 185.5
Other items:								
Proportionate share of associate's one-time charges	(9.2)	–	(8.0)	–	–	–	–	–
Premium paid on early redemption of debentures, net of tax	–	–	–	–	–	(7.8)	–	–
Restructuring and other, net of tax	–	–	–	–	–	(16.7)	–	–
Net earnings available to common shareholders – IFRS	$ 191.6	$ 202.5	$ 185.1	$ 167.5	$ 179.9	$ 198.2	$ 203.7	$ 185.5
Earnings per Share *(¢)*								
Adjusted net earnings available to common shareholders[1]								
– Basic	84	85	81	70	75	92	85	77
– Diluted	84	85	81	70	75	92	85	77
Net earnings available to common shareholders								
– Basic	80	85	77	70	75	82	85	77
– Diluted	80	85	77	70	75	82	85	77
Average daily investment fund assets *($ billions)*	$ 159.5	$ 156.8	$ 155.7	$ 149.9	$ 147.0	$ 154.0	$ 150.9	$ 150.1
Total investment fund assets under management *($ billions)*	$ 161.8	$ 157.6	$ 156.3	$ 154.3	$ 143.3	$ 153.4	$ 152.5	$ 149.2
Total assets under management *($ billions)*	$ 166.8	$ 162.5	$ 162.3	$ 160.5	$ 149.1	$ 159.7	$ 159.1	$ 155.8
Assets under administration *($ billions)*	$ 190.2	$ 185.1	$ 184.7	$ 182.8	$ 170.1	$ 182.6	$ 181.6	$ 177.9

(1) Interest expense includes interest on long-term debt and in 2019 also includes interest on leases as a result of the Company's adoption of IFRS 16, Leases.

(2) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A in addition to the Summary of Consolidated Operating Results section included in the MD&A of the 2019 IGM Financial Inc. Annual Report for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

IG Wealth Management provides a broad range of financial and investment planning services to Canadians through its exclusive network of Consultants across the country.

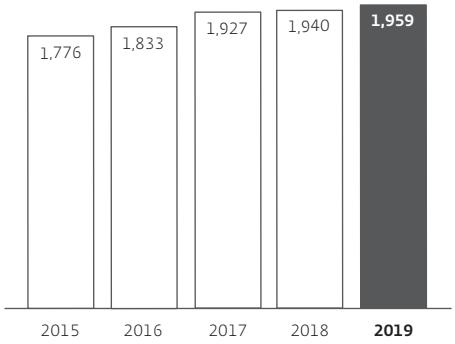
Fee income is primarily generated from the management, administration and distribution of IG Wealth Management mutual funds and the provision of advisory services to our clients.

Fee income is also earned from the distribution of insurance, securities and other financial services.

Additional revenue is derived from net investment income and other income, primarily related to our mortgage business.

Revenues depend largely on the level and composition of mutual fund assets under management. The comprehensive planning approach, provided by our Consultants through the broad range of financial products and services offered by IG Wealth Management, has resulted in a mutual fund redemption rate lower than the industry average.

Fee Income – IG Wealth Management
For the financial year ($ millions)



2019 DEVELOPMENTS

FEE TRANSPARENCY FOR ALL CLIENTS AND PRICING CHANGES

IG Wealth Management is delivering on its client-focused commitment by expanding fee transparency while introducing product and pricing changes to accelerate growth.

IG Wealth Management is increasing fee transparency by making unbundled solutions available to all client segments in the fourth quarter of 2019. Previously, these solutions have been available only to high net worth clients. Under unbundled solutions, clients pay an advisory fee to the dealer for its services as opposed to dealer compensation being bundled within mutual fund management fees. Prior to this change, IG's unbundled fee option (Series U and Series I) had been limited to high net worth clients and had represented over 80% of high net worth client gross sales year to date. Over the next year, our Consultants will be migrating clients to unbundled solutions. To facilitate the move to unbundled fee options, IG Wealth Management also introduced the IG Advisory Account (IGAA) in the fourth quarter of 2019. IGAA is a fee-based account that improves fee transparency by offering the ability to simplify and consolidate investments into a single account while providing all of our clients with unbundled pricing solutions. IGAA accounts can hold both IG Wealth Management and eligible external assets. IG Wealth Management earns fees from these external assets while also compensating its Consultants on these assets.

The company has also introduced more competitive pricing to encourage consolidation of our clients' assets with IG Wealth Management and to increase the competitiveness of our products to attract new clients. On March 1, 2019, IG Wealth Management enhanced the competitiveness of pricing to households with over $1 million in assets with IG Wealth Management through advisory fee reductions across multiple client segments.

IG WEALTH MANAGEMENT STRATEGY

IG Wealth Management's promise is to inspire financial confidence.

Our strategic mandate is to be Canada's financial partner of choice.

Our value proposition is to deliver better Gamma, better Beta and better Alpha:

- Gamma – the value of all efforts that sit outside of investment portfolio construction. This includes the value that a financial advisor adds to a client relationship, and comes from the creation and follow through of a well-constructed financial plan.
- Beta – the value created by well-constructed investment portfolios – achieving expected investment returns for the lowest possible risk.
- Alpha – the value of active management – achieving returns superior to passive benchmarks with a similar composition and risk profile.

We seek to deliver our value proposition through:

- Superior Advice – Acquiring a deep knowledge of Canadian investors and using those insights to shape everything we do.
- Segmented Client Experiences – Creating segmented experiences personalized throughout our clients' lifetimes.
- Entrepreneurial Advisors – Inspiring our entrepreneurial advisors to constantly deliver an engaging experience and a holistic plan that seeks to deliver superior outcomes.
- Powerful Financial Solutions – Providing our clients with a comprehensive suite of well-constructed, high-performing and competitively priced solutions.
- Business processes that are simple, easy and digitized – Re-designing client and advisor interactions to simplify processes, reduce errors, and digitize the experience with an appropriate cost structure.
- Enabled by a high-performing and diverse culture.

GAMMA

THE VALUE OF ALL EFFORTS THAT SIT OUTSIDE OF INVESTMENT PORTFOLIO CONSTRUCTION. THIS INCLUDES THE VALUE THAT A FINANCIAL ADVISOR ADDS TO A CLIENT RELATIONSHIP, AND COMES FROM THE CREATION AND FOLLOW THROUGH OF A WELL-CONSTRUCTED FINANCIAL PLAN.

Entrepreneurial Advisors

IG Wealth Management has a national distribution network of Consultants based in region offices across Canada.

The following provides a breakdown of the IG Wealth Management Consultant network into its significant components at December 31, 2019:

- 1,759 Consultant practices (1,973 at December 31, 2018), which reflect Consultants with more than four years of IG Wealth Management experience. These practices may include Associates as described below. The level and productivity of Consultant practices is a key measurement of our business as they serve clientele representing approximately 95% of AUM.
- 591 New Consultants (700 at December 31, 2018), which are those Consultants with less than four years of IG Wealth Management experience.
- 1,031 Associates and Regional Directors (1,038 at December 31, 2018). Associates are licensed team members of Consultant practices who provide financial planning services and advice to the clientele served by the team.
- IG Wealth Management had a total Consultant network of 3,381 (3,711 at December 31, 2018).

IG Wealth Management's recruiting standards increase the likelihood of success while also enhancing our culture and brand.

Superior Advice

IG Wealth Management requires all Consultants with more than four years of experience to have or be enrolled to achieve the Certified Financial Planner (CFP) or its Quebec equivalent, Financial Planner (F.Pl.) designations. The CFP and F.Pl. designations are nationally recognized financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards.

IG Wealth Management combines a number of interview and testing techniques to identify individuals who demonstrate a blend of experience, education and aptitude that makes them well suited to becoming successful financial planners. This process is continually reviewed in our efforts to select the most appropriate candidates as new Consultants to improve their likelihood of success in the future.

Each year our training curriculum is reviewed and refreshed to offer new Consultants important building blocks to develop client relationships. As Consultants progress, they develop their skills as financial planners and business managers through a selection of focused educational programs including: financial planning skills, product knowledge, client service, business development skills, compliance, technology, practice management and other related topics.

IG Wealth Management also supports Consultants and clients through its network of product and planning specialists who assist in the areas of advanced financial planning, mortgages and banking, insurance, and securities. These specialists provide support in ensuring that we are offering the very best in financial planning and providing plans that are comprehensive across all elements of a client's financial life. Our specialist complement also includes wealth planning specialists who are IIROC-licensed and ensure that the same level of comprehensive advice on direct securities is available to clients who are served by both our Mutual Fund Dealers Association of Canada (MFDA) and Investment Industry Regulatory Organization of Canada (IIROC) licensed Consultants. Clients of our MFDA and IIROC licensed Consultants have access to similar product and service offerings.

Segmented Client Experiences

IG Wealth Management distinguishes itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships. The value of this approach is illustrated through independent studies demonstrating that households receiving advice from a financial advisor have greater wealth than non-advised households, and that this advantage increases based on the length of the relationship with the financial advisor.

IG Living Plan™ is a holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan provides a single, integrated view of all aspects of a client's finances including retirement and estate planning, investments and tax strategies, creating a truly synchronized and comprehensive plan.

The IG Living Plan leverages the experience and expertise of IG Wealth Management's Consultants who serve approximately one million clients located in communities throughout Canada.

IG Wealth Management has a full range of products that allow us to provide a tailored IG Living Plan that evolves over time. These products include:

- Powerful financial solutions that include investment vehicles that match risk and investment performance to each client's needs and requirements.
- Insurance products that include a variety of different policy types from the leading insurers in Canada.
- Mortgage and banking to develop mortgage and other lending strategies that meet the individual needs and goals of each client as part of their comprehensive financial plan.
- Charitable Giving Program, a donor-advised giving program which enables Canadians to make donations and build an enduring charitable giving legacy with considerably less expense and complexity than setting up and administering their own private foundation.

The National Service Centre, launched in 2018, allows us to offer a targeted, consistent and improved real-time experience for clients with smaller accounts, while our credentialed planners focus on those clients who have more complicated and sophisticated needs. The National Service Centre supports more than 200,000 clients and $1.7 billion assets under management.

Business processes

Administrative support for Consultants and clients includes timely and accurate client account record-keeping and reporting, effective problem resolution support, and continuous improvements to servicing systems.

This administrative support is provided for Consultants and clients from both IG Wealth Management's head office in Winnipeg, Manitoba and IG Wealth Management's Quebec General Office located in Montreal for Consultants and clients residing in Quebec. The Quebec General Office has approximately 180 employees and operating units for most functions supporting approximately 730 Consultants throughout Quebec. Mutual fund assets under management in Quebec were approximately $17 billion as at December 31, 2019.

IG Wealth Management continually reviews and enhances our Consultant technology platform, bringing greater efficiencies to our Consultants' contact management and portfolio information and financial planning systems to help them serve our clients more effectively.

IG Wealth Management's dealer platform provides increased automation and supports both MFDA and IIROC licensed advisors as well as new products on our investment dealer platform designed to support the high net worth segment of our client base. The platform is expected to result in efficiencies over the long term. IG Wealth Management continues the transitioning of clients to this platform.

IG Wealth Management's Personal Financial Planner (PFP) software handles a wide range of potential financial planning needs – from projections and illustrations for basic financial planning concepts to the preparation of written financial plans which integrate all disciplines of financial planning, including investment, tax, retirement, education, risk management and estate planning.

Enabled by a high-performing and diverse culture

IG Wealth Management has established a high-performing and diverse culture to allow employees and Consultants to achieve maximum results. Gallup and other surveys are utilized to ensure that employees and Consultants are fully engaged and have the resources required to excel.

BETA AND ALPHA

BETA - THE VALUE CREATED BY WELL-CONSTRUCTED INVESTMENT PORTFOLIOS – ACHIEVING EXPECTED INVESTMENT RETURNS FOR THE LOWEST POSSIBLE RISK.

ALPHA - THE VALUE OF ACTIVE MANAGEMENT – ACHIEVING RETURNS SUPERIOR TO PASSIVE BENCHMARKS WITH A SIMILAR COMPOSITION AND RISK PROFILE.

IG Wealth Management strives to provide Beta and Alpha through the selection of its global sub-advisors. The use of sub-advisors allows us to provide clients with products that provide diversification and global reach.

A strong selection process exists to ensure the best available sub-advisors are selected to manage IG Wealth Management's investment products. IG Wealth Management oversees all sub-advisors to ensure that their activities are consistent with its investment philosophy and with the investment objectives and strategies of the products that they advise.

IG Wealth Management's primary focus is on providing managed solutions that deliver superior risk-adjusted returns to our clients so that they can confidently pursue their goals and a more secure financial future. Engaging numerous high quality investment management organizations from all over the world is a key design aspect of these managed solutions that enables the delivery of multi-disciplinary teams, global connections, depth of research and

use of information technology. Investment Managers are selected through a rigorous process followed by continuous performance monitoring and oversight. IG Wealth Management's advisory relationships include Mackenzie Investments, as well as other world class investment firms.

New Products

IG Wealth Management continues to enhance the performance, scope and diversity of our investment offering with the introduction of new funds and other product changes that are well-suited to the long-term diverse needs of Canadian investors.

Powerful Financial Solutions

IG Wealth Management provides a wide range of investment and other financial solutions that enable clients to achieve their goals.

- *Mutual Funds* – IG Wealth Management offers a wide breadth and depth of mutual funds that assist clients and their Consultants to develop customized portfolios to meet their objectives by diversifying their holdings across investment managers, asset categories, investment styles, geography, capitalization and sectors.
- *IG Wealth Portfolios* – IG Wealth Management offers managed portfolios that seek to provide diversification and long-term consistent performance. Portfolios rebalance investments to ensure that the chosen mix of risk and return is maintained. IG Wealth Management has a variety of portfolio solutions including IG Core Portfolios, IG Managed Payout Portfolios, Investors Portfolios, and IG Managed Risk Portfolios.
- *iProfile*™ - iProfile is a unique portfolio management program that is available for households with investments held at IG Wealth Management in excess of $250,000. iProfile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions.
- *Segregated Funds* - IG Wealth Management offers segregated funds which include the IG Series of Guaranteed Investment Funds (GIFs). GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and six individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death benefit guarantee features, potential creditor protection and estate planning efficiencies.
- *Separately Managed Accounts and Fee-Based Brokerage Account* - IG Wealth Management's separately managed account program, Azure Managed Investments™ is offered through IG Wealth Management's brokerage services firm, Investors Group Securities Inc. Azure Managed Investments are discretionary dealer-managed accounts that allow clients to delegate responsibility for day-to-day investment decisions to a portfolio manager. There are seven different investment mandates available that provide core equity exposure in Canadian, U.S., North American and International equity markets. IG Wealth Management's Fee-Based Account program is a non-discretionary, fee-based brokerage account offering clients the benefits of a holistic approach to managing their portfolio.
- *IG Advisory Account (IGAA) and unbundled fee structures* – The IGAA was introduced in the fourth quarter of 2019 and is a fee-based account that improves client experience by offering the ability to simplify and consolidate selected investments into a single account while providing all of our clients with unbundled pricing solutions. IGAA accounts increase fee transparency and can hold both IG Wealth Management and eligible external assets.

A growing portion of IG Wealth Management's client assets are in unbundled fee structures where a separate advisory fee (IGAA, iProfile or Series U) is charged to the client account by the dealer. At December 31, 2019, $36.0 billion, or 38.7% of IG Wealth Management's mutual fund assets under management, were in products with unbundled fee structures, up 42.2% from $25.3 billion at December 31, 2018 which represented 30.5% of assets under management. Sales of these products to high net worth clients totalled $1.1 billion for the fourth quarter of 2019, an increase of $364 million from the fourth quarter of 2018, representing 88% of total high net worth sales and 51% of total mutual fund sales. For the twelve months ended December 31, 2019, sales totalled $3.8 billion, an increase of $0.8 billion from 2018, representing 83% of total high net worth sales and 44% of total mutual fund sales.

Over the next year, the Company will migrate the majority of existing clients to unbundled fee products. Unbundled fee products separate the advisory fee that is charged directly to a client's account from the fees charged to the underlying investment funds. Following this transition, IG Wealth Management will discontinue offering bundled purchase options for substantially all investment products.

IG Wealth Management monitors its investment performance by comparing to certain benchmarks. Morningstar† fund ranking service is one of the rankings monitored when determining fund performance.

At December 31, 2019, 57.4% of IG Wealth Management mutual funds had a rating of three stars or better from the Morningstar† fund ranking service and 16.5% had a rating of four or five stars. This compared to the Morningstar† universe of 69.5% for three stars or better and 34.4% for four and five star funds at December 31, 2019. Morningstar Ratings† are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

ASSETS UNDER MANAGEMENT

At December 31, 2019, IG Wealth Management's mutual fund assets under management were $93.2 billion, an all-time quarter end high. The level of assets under management is influenced by three factors: sales, redemptions and investment returns of our funds. Changes in mutual fund assets under management for the periods under review are reflected in Table 10.

HIGH NET WORTH OFFERINGS

IG Wealth Management has several offerings to address the needs of high net worth clients, who represent a growing segment of our client base, and continues to look at ways to provide further offerings to this segment. Assets under management for clients in this category totalled $50.0 billion at December 31, 2019, an increase of 20.5% from one year ago, and represented 54% of total assets under management. Sales of high net worth solutions totalled $1.3 billion for the fourth quarter of 2019, an increase of 27.5% from a year ago, and represented 58% of total sales up from 48% in 2018. For the twelve month period, sales of high net worth solutions totalled $4.6 billion and represented 52% of total sales up from 45% in 2018.

- Series U is available to all clients and provides a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At December 31, 2019, Series U assets under management related to households with investments in IG Wealth Management funds in excess of $500,000 had increased to $20.9 billion, compared to $16.3 billion at December 31, 2018, an increase of 28.3%.
- iProfile™ - is a unique portfolio management program that is available for households with investments held at IG Wealth Management in excess of $250,000. The iProfile program has a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At December 31, 2019, the iProfile program assets under management were $15.1 billion, an increase of 67.2% from $9.0 billion at December 31, 2018.
- Series J is available for households with investments in IG Wealth Management funds in excess of $500,000 and had assets of $14.0 billion at December 31, 2019, a decrease of 13.5% from $16.1 billion at December 31, 2018, largely as a result of transfer activity from Series J to Series U. Series J pricing structure bundles the cost of asset management and advice into one fee.

CHANGES IN ASSETS UNDER MANAGEMENT AND ADMINISTRATION– 2019 VS. 2018

IG Wealth Management's assets under administration were $97.3 billion at December 31, 2019, representing an increase of 12.7% from $86.3 billion at December 31, 2018. IG Wealth Management's mutual fund assets under management were $93.2 billion at December 31, 2019, representing an increase of 12.1% from $83.1 billion at December 31, 2018. Average daily mutual fund assets were $91.9 billion in the fourth quarter of 2019, up 8.0% from $85.1 billion in the fourth quarter of 2018. Average daily mutual fund assets were $89.9 billion for the twelve months ended December 31, 2019, up 2.6% from $87.6 billion in 2018.

For the quarter ended December 31, 2019, sales of IG Wealth Management mutual funds through its Consultant network were $2.3 billion, an increase of 6.3% from the comparable period in 2018. Mutual fund redemptions totalled $2.5 billion, an increase of 11.4% from 2018. IG Wealth Management mutual fund net redemptions for the fourth quarter of 2019 were $247 million compared with net redemptions of $125 million in 2018. During the fourth quarter, investment returns resulted in an increase of $2.6 billion in mutual fund assets compared to a decrease of $5.7 billion in the fourth quarter of 2018.

IG Wealth Management's annualized quarterly redemption rate for long-term funds was 10.2% in the fourth quarter of 2019, compared to 9.7% in the fourth quarter of 2018. IG Wealth Management's twelve month trailing redemption rate for long-term funds was 10.3% at December 31, 2019, compared to 9.2% at December 31, 2018, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 16.2% at December 31, 2019. The increase in the redemption rate primarily relates to weakened investor confidence over the last year.

For the twelve months ended December 31, 2019, sales of IG Wealth Management mutual funds through its Consultant network were $8.7 billion, a decrease of 3.9% from 2018. Mutual fund redemptions totalled $9.8 billion, an increase of 14.2% from 2018. Net redemptions of IG Wealth Management mutual funds were $1.1 billion compared with net sales of $485 million in 2018. During 2019, investment returns resulted in an increase of $11.1 billion in mutual fund assets compared to a decrease of $5.4 million in 2018.

TABLE 10: CHANGE IN ASSETS UNDER MANAGEMENT AND ADMINISTRATION – IG WEALTH MANAGEMENT

THREE MONTHS ENDED ($ millions)	2019 DEC. 31	2019 SEP. 30	2018 DEC. 31	% CHANGE 2019 SEP. 30	% CHANGE 2018 DEC. 31
Mutual fund assets under management					
Sales	**$ 2,251**	$ 2,077	$ 2,118	8.4 %	6.3 %
Redemptions	**2,498**	2,368	2,243	5.5	11.4
Net sales (redemptions)	**(247)**	(291)	(125)	15.1	(97.6)
Investment returns	**2,629**	894	(5,730)	194.1	N/M
Net change in assets	**2,382**	603	(5,855)	N/M	N/M
Beginning assets	**90,779**	90,176	88,992	0.7	2.0
Ending assets	**$ 93,161**	$ 90,779	$ 83,137	2.6 %	12.1 %
Assets under administration	**$ 97,277**	$ 94,456	$ 86,287	3.0 %	12.7 %
Daily average mutual fund assets	**$ 91,931**	$ 90,363	$ 85,128	1.7 %	8.0 %

TWELVE MONTHS ENDED ($ millions)	2019 DEC. 31	2018 DEC. 31	% CHANGE
Mutual fund assets under management			
Sales	**$ 8,723**	$ 9,075	(3.9) %
Redemptions	**9,812**	8,590	14.2
Net sales (redemptions)	**(1,089)**	485	N/M
Investment returns	**11,113**	(5,356)	N/M
Net change in assets	**10,024**	(4,871)	N/M
Beginning assets	**83,137**	88,008	(5.5)
Ending assets	**$ 93,161**	$ 83,137	12.1 %
Assets under administration	**$ 97,277**	$ 86,287	12.7 %
Daily average mutual fund assets	**$ 89,875**	$ 87,595	2.6 %

CHANGES IN ASSETS UNDER MANAGEMENT AND ADMINISTRATION – Q4 2019 VS. Q3 2019

IG Wealth Management's assets under administration were $97.3 billion at December 31, 2019, an increase of 3.0% from $94.5 billion at September 30, 2019. IG Wealth Management's mutual fund assets under management were $93.2 billion at December 31, 2019, an increase of 2.6% from $90.8 billion at September 30, 2019. Average daily mutual fund assets were $91.9 billion in the fourth quarter of 2019 compared to $90.4 billion in the third quarter of 2019, an increase of 1.7%.

For the quarter ended December 31, 2019, sales of IG Wealth Management mutual funds through its Consultant network were $2.3 billion, an increase of 8.4% from the third quarter of 2019. Mutual fund redemptions, which totalled $2.5 billion for the fourth quarter, increased 5.5% from the previous quarter and the annualized quarterly redemption rate was 10.2% in the fourth quarter compared to 9.9% in the third quarter of 2019. IG Wealth Management mutual fund net redemptions were $247 million for the current quarter compared to net redemptions of $291 million in the previous quarter.

OTHER PRODUCTS AND SERVICES

SEGREGATED FUNDS

IG Wealth Management offers segregated funds which include the IG Series of Guaranteed Investment Funds (GIFs). Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by IG Wealth Management. At December 31, 2019, total segregated fund assets were $1.6 billion, unchanged from December 31, 2018.

INSURANCE

IG Wealth Management continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, IG Wealth Management offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance. The Canada Life Assurance Company is a leading provider of the Company's insurance products. Effective as of January 1, 2020, Great-West, London

Life and Canada Life, amalgamated into a single company, The Canada Life Assurance Company.

The average number of policies sold by each insurance-licensed Consultant was 2.5 for the quarter ended December 31, 2019, compared to 2.6 in 2018. For the year ended December 31, 2019, the average number of policies sold by each insurance-licensed Consultant was 10.0, compared to 9.7 in 2018. Distribution of insurance products is enhanced through IG Wealth Management's Insurance Planning Specialists, located throughout Canada, who assist Consultants with advanced estate planning solutions for high net worth clients.

SECURITIES OPERATIONS

Investors Group Securities Inc. is an investment dealer registered in all Canadian provinces and territories providing clients with securities services to complement their financial and investment planning. IG Wealth Management Consultants can refer clients to one of our Wealth Planning Specialists available through Investors Group Securities Inc.

MORTGAGE AND BANKING OPERATIONS

IG Wealth Management Mortgage Planning Specialists are located throughout each province in Canada, and work with our clients and their Consultants to develop mortgage and other lending strategies that meet the individual needs and goals of each client as part of their comprehensive financial plan.

Mortgages are offered to clients by IG Wealth Management, a national mortgage lender, and through IG Wealth Management's Solutions Banking†, provided by National Bank of Canada under a long-term distribution agreement. An All-in-One product, a comprehensive cash management solution that integrates the features of a mortgage, term loan, revolving line of credit and deposit account, is also offered through Solutions Banking†.

Mortgage fundings offered through IG Wealth Management and through Solutions Banking† for the three and twelve months ended December 31, 2019 were $293 million and $1.2 billion compared to $305 million and $1.3 billion in 2018, a decrease of 3.9% and 9.8%, respectively. At December 31, 2019, mortgages offered through both sources totalled $10.3 billion, compared to $10.7 billion at December 31, 2018, a decrease of 3.7%.

Available credit associated with Solutions Banking† All-in-One accounts originated for the three and twelve month periods ended December 31, 2019 were $240 million and $770 million, respectively, compared to $187 million and $931 million in 2018. At December 31, 2019, the balance outstanding of Solutions Banking† All-in-One products was $2.9 billion, compared to $2.6 billion one year ago, and represented approximately 50% of total available credit associated with these accounts.

Other products and services offered through IG Wealth Management's Solutions Banking† include investment loans, lines of credit, personal loans, creditor insurance, deposit accounts, and credit cards. Through Solutions Banking†, clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking† offering supports IG Wealth Management's approach to delivering total financial solutions for our clients through a broad financial planning platform. Total lending products of IG Wealth Management clients in the Solutions Banking† offering, including Solutions Banking† mortgages totalled $4.5 billion at December 31, 2019, compared to $4.1 billion at December 31, 2018.

IG Wealth Management's earnings before interest and taxes are presented in Table 11.

2019 VS. 2018

FEE INCOME

Fee income is generated from the management, administration and distribution of IG Wealth Management mutual funds. The distribution of insurance and Solutions Banking† products and the provision of securities services provide additional fee income.

IG Wealth Management earns management fees for investment management services provided to its mutual funds, which depend largely on the level and composition of mutual fund assets under management. Management fees were $381.7 million in the fourth quarter of 2019, an increase of $25.0 million

TABLE 11: OPERATING RESULTS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED ($ millions)	2019 DEC. 31	2019 SEP. 30	2018 DEC. 31	% CHANGE 2019 SEP. 30	% CHANGE 2018 DEC. 31
Revenues					
Management fees	**$ 381.7**	$ 376.2	$ 356.7	1.5 %	7.0 %
Administration fees	**75.3**	75.2	75.2	0.1	0.1
Distribution fees	**44.0**	41.5	45.1	6.0	(2.4)
	501.0	492.9	477.0	1.6	5.0
Net investment income and other	**16.8**	15.8	11.0	6.3	52.7
	517.8	508.7	488.0	1.8	6.1
Expenses					
Commission					
Commission amortization	**6.5**	5.9	4.4	10.2	47.7
Mutual fund sales commissions expensed as incurred	**16.1**	16.4	22.2	(1.8)	(27.5)
Other commissions	**30.7**	29.0	30.4	5.9	1.0
	53.3	51.3	57.0	3.9	(6.5)
Asset-based compensation	**106.3**	103.4	99.3	2.8	7.0
Non-commission	**151.9**	148.2	159.6	2.5	(4.8)
	311.5	302.9	315.9	2.8	(1.4)
Earnings before interest and taxes	**$ 206.3**	$ 205.8	$ 172.1	0.2 %	19.9 %

TWELVE MONTHS ENDED ($ millions)	2019 DEC. 31	2018 DEC. 31	% CHANGE
Revenues			
Management fees	**$ 1,488.0**	$ 1,458.1	2.1 %
Administration fees	**299.6**	310.4	(3.5)
Distribution fees	**171.2**	171.5	(0.2)
	1,958.8	1,940.0	1.0
Net investment income and other	**56.2**	46.7	20.3
	2,015.0	1,986.7	1.4
Expenses			
Commission			
Commission amortization	**22.4**	14.5	54.5
Mutual fund sales commissions expensed as incurred	**72.8**	103.4	(29.6)
Other commissions	**121.9**	118.3	3.0
	217.1	236.2	(8.1)
Asset-based compensation	**411.7**	387.2	6.3
Non-commission	**615.9**	597.3	3.1
	1,244.7	1,220.7	2.0
Earnings before interest and taxes	**$ 770.3**	$ 766.0	0.6 %

or 7.0% from $356.7 million in 2018. For the twelve months ended December 31, 2019, management fees were $1,488.0 million, an increase of $29.9 million or 2.1% from $1,458.1 million in 2018.

The net increase in management fees in the fourth quarter of 2019 was primarily due to the increase in average assets under management of 8.0%, as shown in Table 10. The average management fee rate for the fourth quarter was 165.2 basis points of average assets under management compared to 166.1 basis points in 2018, reflecting pricing reductions effective March 1, 2019.

The net increase in management fees in the year ended December 31, 2019 was primarily due to the increase in average assets under management of 2.6%, as shown in Table 10. The average management fee rate for the twelve months ended December 31, 2019, was 165.9 basis points of average assets under management compared to 166.4 basis points in 2018, reflecting pricing reductions effective March 1, 2019.

IG Wealth Management receives administration fees for providing administrative services to its mutual funds and trusteeship services to its unit trust mutual funds, which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled $75.3 million in the current quarter, up slightly from $75.2 million a year ago. Administration fees were $299.6 million for the twelve month period ended December 31, 2019 compared to $310.4 million in 2018, a decrease of 3.5%. The decrease in the twelve month period resulted primarily from the movement of assets into unbundled products which are not charged certain administration fees and changes in the composition of average assets under management.

Distribution fees are earned from:

- Distribution of insurance products through I.G. Insurance Services Inc.
- Redemption fees on mutual funds that were sold with a deferred sales charge.
- Portfolio fund distribution fees.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking†.

Distribution fee income of $44.0 million for the fourth quarter of 2019 decreased by $1.1 million from $45.1 million in 2018, primarily due to lower distribution fee income from insurance products and lower redemption fees, offset in part by higher banking income. For the twelve month period, distribution fee income of $171.2 million decreased by $0.3 million from $171.5 million in 2018, primarily due to lower redemption fees, offset in part by the increase in distribution fee income from insurance and banking products. IG Wealth Management no longer offers the deferred sales purchase option for its mutual funds. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

NET INVESTMENT INCOME AND OTHER

Net investment income and other includes income related to mortgage banking operations and net interest income related to intermediary operations.

Net investment income and other was $16.8 million in the fourth quarter of 2019, an increase of $5.8 million from $11.0 million in 2018. For the year ended December 31, 2019, net investment income and other totalled $56.2 million, an increase of $9.5 million from $46.7 million in 2018.

Net investment income related to IG Wealth Management's mortgage banking operations totalled $12.8 million for the fourth quarter of 2019 compared to $6.0 million in 2018, an increase of $6.8 million. For the year ended December 31, 2019, net investment income related to IG Wealth Management's mortgage banking operations totalled $45.4 million compared to $36.9 million in 2018, an increase of $8.5 million. The changes in mortgage banking income were largely due to fair value adjustments which increased by $6.3 million and $9.3 million for the three and twelve month periods ended December 31, 2019 to $0.2 million and ($4.3) million, respectively, compared to 2018. The increases in both periods were primarily due to negative fair value adjustments in 2018 on certain securitization related financial instruments. A summary of mortgage banking operations for the three and twelve month periods under review is presented in Table 12.

EXPENSES

IG Wealth Management incurs commission expense in connection with the distribution of its financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. Commissions paid on the sale of investment products are capitalized and amortized over their estimated useful lives where the Company receives a fee directly from the client. All other commissions paid on investment product sales are expensed as incurred.

Commission expense was $53.3 million for the fourth quarter of 2019, a decrease of $3.7 million from $57.0 million in 2018 primarily due to lower mutual fund sales and lower compensation related to the distribution of insurance products. For the twelve month period, commission expense was $217.1 million, a decrease of $19.1 million from $236.2 million in 2018. The decrease in mutual fund commissions was primarily due to lower mutual fund sales partially offset by higher compensation related to the distribution of insurance products.

TABLE 12: MORTGAGE BANKING OPERATIONS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED ($ millions)	2019 DEC. 31	2019 SEP. 30	2018 DEC. 31	% CHANGE 2019 SEP. 30	% CHANGE 2018 DEC. 31
Total mortgage banking income					
Net interest income on securitized loans					
Interest income	$ 50.5	$ 52.4	$ 51.7	(3.6) %	(2.3) %
Interest expense	41.3	42.9	42.5	(3.7)	(2.8)
Net interest income	9.2	9.5	9.2	(3.2)	–
Gains on sales[1]	0.6	0.9	–	(33.3)	N/M
Fair value adjustments	0.2	0.7	(6.1)	(71.4)	N/M
Other	2.8	2.8	2.9	–	(3.4)
	$ 12.8	$ 13.9	$ 6.0	(7.9) %	113.3 %
Average mortgages serviced					
Securitizations	$ 6,996	$ 7,185	$ 7,264	(2.6) %	(3.7) %
Other	2,744	2,750	3,104	(0.2)	(11.6)
	$ 9,740	$ 9,935	$ 10,368	(2.0) %	(6.1) %
Mortgage sales to:[2]					
Securitizations	$ 284	$ 469	$ 550	(39.4) %	(48.4) %
Other[1]	256	166	81	54.2	216.0
	$ 540	$ 635	$ 631	(15.0) %	(14.4) %

TWELVE MONTHS ENDED ($ millions)	2019 DEC. 31	2018 DEC. 31	% CHANGE
Total mortgage banking income			
Net interest income on securitized loans			
Interest income	$ 208.0	$ 204.0	2.0 %
Interest expense	171.9	165.1	4.1
Net interest income	36.1	38.9	(7.2)
Gains on sales[1]	3.2	1.5	113.3
Fair value adjustments	(4.3)	(13.6)	68.4
Other	10.4	10.1	3.0
	$ 45.4	$ 36.9	23.0 %
Average mortgages serviced			
Securitizations	$ 7,232	$ 7,388	(2.1) %
Other	2,782	3,174	(12.4)
	$ 10,014	$ 10,562	(5.2) %
Mortgage sales to:[2]			
Securitizations	$ 1,517	$ 1,841	(17.6) %
Other[1]	558	357	56.3
	$ 2,075	$ 2,198	(5.6) %

(1) Represents sales to institutional investors through private placements, to Investors Mortgage and Short Term Income Fund, and to Investors Canadian Corporate Bond Fund as well as gains realized on those sales.

(2) Represents principal amounts sold.

Asset-based compensation, which is based on the value of assets under management, increased by $7.0 million and $24.5 million for the three and twelve month periods ended December 31, 2019 to $106.3 million and $411.7 million, compared to 2018. The increase was primarily due to the increase in assets under management.

Non-commission expenses incurred by IG Wealth Management primarily relate to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as sub-advisory fees related to mutual fund assets under management. Non-commission expenses were $151.9 million for the fourth quarter of 2019 compared to $159.6 million in 2018, a decrease of $7.7 million or 4.8%. The decrease for the quarter was primarily due to advertising and marketing expenses resulting from the brand re-launch recorded in the fourth quarter of 2018. For the twelve month period, non-commission expenses were $615.9 million in 2019 compared to $597.3 million in 2018, an increase of $18.6 million or 3.1%. The increase in 2019 was primarily due to increased technology expenses in the first quarter relating to the migration of clients to our new dealer platform and unbundled fee arrangements, as well as continued expenses associated with the brand re-launch.

Q4 2019 VS. Q3 2019

FEE INCOME

Management fee income increased by $5.5 million or 1.5% to $381.7 million in the fourth quarter of 2019 compared with the third quarter. The increase in management fees in the fourth quarter was primarily due to the increase in average assets under management of 1.7% for the quarter, as shown in Table 10.

Administration fees were $75.3 million in the fourth quarter of 2019, up slightly from the third quarter.

Distribution fee income of $44.0 million in the fourth quarter of 2019 increased by $2.5 million from $41.5 million in the third quarter primarily due to an increase in distribution fee income from insurance product sales offset by lower redemption fees.

NET INVESTMENT INCOME AND OTHER

Net investment income and other was $16.8 million in the fourth quarter of 2019 compared to $15.8 million in the previous quarter, an increase of $1.0 million.

Net investment income related to IG Wealth Management's mortgage banking operations totalled $12.8 million in the fourth quarter, a decrease of $1.1 million from $13.9 million in the previous quarter as shown in Table 12.

EXPENSES

Commission expense in the current quarter was $53.3 million compared with $51.3 million in the previous quarter. The increase related to higher cash commissions paid being expensed in the quarter primarily due to higher mutual fund sales and compensation related to the distribution of insurance product sales.

Non-commission expenses increased to $151.9 million in the current quarter compared to $148.2 million in the prior quarter primarily due to the seasonality of expenses offset in part by ongoing efforts to manage non-commission expense.

MACKENZIE INVESTMENTS

REVIEW OF THE BUSINESS

Mackenzie's core business is the provision of investment management and related services offered through diversified investment solutions, distributed through multiple distribution channels. We are committed to delivering strong investment performance for our clients by drawing on the experience and perspective gained through over 50 years in the investment management business.

Mackenzie earns revenue primarily from:

- Management fees earned from its investment funds, sub-advised accounts and institutional clients.
- Fees earned from its mutual funds for administrative services.
- Redemption fees on deferred sales charge and low load units.

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. Equity based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts.

MACKENZIE STRATEGY

Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

Mackenzie's vision: We are committed to the financial success of investors, through *their* eyes. This impacts the strategic priorities we select to fulfil that commitment and drive future business growth. Our strategic mandate is two-fold: win in the Canadian retail space and build meaningful strategic relationships. We aim to achieve this mandate by attracting and fostering the best minds in the investment industry, responding to changing needs of financial advisors and investors with distinctive and innovative solutions, and continuing to deliver institutional quality in everything we do.

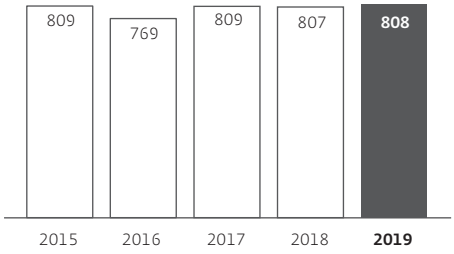
Supporting this vision and strategic mandate are six key foundational capabilities that our employees strive to achieve:

- Delivering competitive and consistent risk-adjusted performance
- Offering innovative and high quality investment solutions
- Accelerating distribution
- Advancing brand leadership
- Driving operational excellence and discipline
- Enabling a high-performing and diverse culture

Mackenzie seeks to maximize returns on business investment by focusing resources in areas that directly impact the success of our strategic mandate: investment management, distribution and client experience.

Fee Income – Mackenzie

For the financial year ($ millions)



Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our business focuses on multiple distribution channels: Retail, Strategic Alliances and Institutional.

Mackenzie primarily distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace. Within the strategic alliance channel, Mackenzie offers certain series of its mutual funds and provides sub-advisory services to third party and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to IG Wealth Management, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries, and also include a private label mutual fund arrangement with Lifeco subsidiary Quadrus. Within the strategic alliance channel, Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company. In the institutional channel, Mackenzie provides investment management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel given the relative size and the nature of the distribution relationships of these accounts. These accounts are also subject to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

Mackenzie is positioned to continue to build and enhance its distribution relationships given its team of experienced investment professionals, strength of its distribution network, broad product shelf, competitively priced products and its focus on client experience and investment excellence.

ASSETS UNDER MANAGEMENT

The changes in investment fund assets under management are summarized in Table 13 and the changes in total assets under management are summarized in Table 14.

At December 31, 2019, Mackenzie's investment fund assets under management were $64.0 billion, an all-time high, and total assets under management were $70.2 billion. The change in Mackenzie's assets under management is determined by investment returns generated for our clients and net contributions from our clients.

TABLE 13: CHANGE IN INVESTMENT FUND ASSETS UNDER MANAGEMENT – MACKENZIE[1]

THREE MONTHS ENDED ($ millions)	2019 DEC. 31	2019 SEP. 30	2018 DEC. 31	% CHANGE 2019 SEP. 30	% CHANGE 2018 DEC. 31
Sales	**$ 2,587**	$ 2,253	$ 2,328	14.8 %	11.1 %
Redemptions	**2,569**	2,114	2,474	21.5	3.8
Mutual fund net sales (redemptions)[2]	**18**	139	(146)	(87.1)	N/M
ETF net creations	**646**	597	137	8.2	N/M
Inter-product eliminations[3]	**(399)**	(245)	(82)	(62.9)	N/M
Investment fund net sales (redemptions)	**265**	491	(91)	(46.0)	N/M
Investment returns	**1,576**	264	(3,894)	N/M	N/M
Net change in assets	**1,841**	755	(3,985)	143.8	N/M
Beginning assets	**62,150**	61,395	59,493	1.2	4.5
Ending assets	**$ 63,991**	$ 62,150	$ 55,508	3.0 %	15.3 %
Consists of:					
Mutual funds	**$ 60,838**	$ 59,275	$ 53,407	2.6 %	13.9 %
ETFs	**4,749**	4,051	2,949	17.2	61.0
Inter-product eliminations[3]	**(1,596)**	(1,176)	(848)	(35.7)	(88.2)
Investment funds	**$ 63,991**	$ 62,150	$ 55,508	3.0 %	15.3 %
Daily average investment fund assets	**$ 62,969**	$ 61,802	$ 57,138	1.9 %	10.2 %

TWELVE MONTHS ENDED ($ millions)	2019 DEC. 31	2018 DEC. 31	% CHANGE
Sales	**$ 9,886**	$ 9,951	(0.7) %
Redemptions	**9,374**	9,838	(4.7)
Mutual fund net sales (redemptions)[2]	**512**	113	N/M
ETF net creations	**1,559**	1,799	(13.3)
Inter-product eliminations[3]	**(655)**	(530)	(23.6)
Investment fund net sales (redemptions)	**1,416**	1,382	2.5
Investment returns	**7,067**	(2,417)	N/M
Net change in assets	**8,483**	(1,035)	N/M
Beginning assets	**55,508**	56,543	(1.8)
Ending assets	**$ 63,991**	$ 55,508	15.3 %
Daily average investment fund assets	**$ 60,949**	$ 57,918	5.2 %

(1) Mackenzie segment excludes investments into Mackenzie mutual funds by IG Wealth Management mutual funds from its assets under management and net sales.

(2) During 2019 and 2018, institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes:

– Fourth quarter of 2019 – resulted in sales of $129 million, redemptions of $165 million and net redemptions of $36 million.

– During 2018 – resulted in sales of $409 million, redemptions of $807 million and net redemptions of $398 million.

(3) Total investment fund net sales and assets under management exclude Mackenzie mutual fund investments in ETFs.

TABLE 14: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE[1]

THREE MONTHS ENDED ($ millions)	2019 DEC. 31	2019 SEP. 30	2018 DEC. 31	% CHANGE 2019 SEP. 30	% CHANGE 2018 DEC. 31
Net sales (redemptions)					
Mutual funds[2]	$ 18	$ 139	$ (146)	(87.1) %	N/M %
ETF net creations	646	597	137	8.2	N/M
Inter-product eliminations[3]	(399)	(245)	(82)	(62.9)	N/M
Investment funds	265	491	(91)	(46.0)	N/M
Sub-advisory, institutional and other accounts[4]	(86)	(1,171)	(224)	92.7	61.6
Total net sales (redemptions)	179	(680)	(315)	N/M	N/M
Investment returns	1,755	343	(4,304)	N/M	N/M
Net change in assets	1,934	(337)	(4,619)	N/M	N/M
Beginning assets	68,271	68,608	67,347	(0.5)	1.4
Ending assets	$ 70,205	$ 68,271	$ 62,728	2.8 %	11.9 %
Consists of:					
Mutual funds	$ 60,838	$ 59,275	$ 53,407	2.6 %	13.9 %
ETFs	4,749	4,051	2,949	17.2	61.0
Inter-product eliminations[3]	(1,596)	(1,176)	(848)	(35.7)	(88.2)
Investment funds	63,991	62,150	55,508	3.0	15.3
Sub-advisory, institutional and other accounts[4]	6,214	6,121	7,220	1.5	(13.9)
Total assets under management	$ 70,205	$ 68,271	$ 62,728	2.8 %	11.9 %
Average total assets[5]	$ 69,137	$ 68,209	$ 64,628	1.4 %	7.0 %

TWELVE MONTHS ENDED ($ millions)	2019 DEC. 31	2018 DEC. 31	% CHANGE
Net sales (redemptions)			
Mutual funds[2]	$ 512	$ 113	N/M %
ETF net creations	1,559	1,799	(13.3)
Inter-product eliminations[3]	(655)	(530)	(23.6)
Investment funds	1,416	1,382	2.5
Sub-advisory, institutional and other accounts[4]	(1,894)	(487)	N/M
Total net sales (redemptions)	(478)	895	N/M
Investment returns	7,955	(2,676)	N/M
Net change in assets	7,477	(1,781)	N/M
Beginning assets	62,728	64,509	(2.8)
Ending assets	$ 70,205	$ 62,728	11.9 %
Average total assets[5]	$ 67,772	$ 65,860	2.9 %

(1) Mackenzie segment excludes investments into Mackenzie mutual funds by IG Wealth Management mutual funds from its assets under management and net sales.

(2) During 2019 and 2018, institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes:

– Fourth quarter of 2019 – resulted in sales of $129 million, redemptions of $165 million and net redemptions of $36 million.

– During 2018 – resulted in sales of $409 million, redemptions of $807 million and net redemptions of $398 million.

(3) Total investment fund net sales and assets under management exclude Mackenzie mutual fund investments in ETFs.

(4) During the third quarter of 2019, MD Financial Management reassigned sub-advisory responsibilities totalling $1.2 billion on mandates advised upon by Mackenzie.

(5) Based on daily average investment fund assets and month-end average sub-advisory, institutional and other assets.

CHANGE IN ASSETS UNDER MANAGEMENT – 2019 VS. 2018

Mackenzie's total assets under management at December 31, 2019 were $70.2 billion, an increase of 11.9% from $62.7 billion at December 31, 2018. Mackenzie's sub-advisory, institutional and other accounts at December 31, 2019 were $6.2 billion, a decrease of 13.9% from $7.2 billion last year.

Mackenzie's investment fund assets under management were $64.0 billion at December 31, 2019, an increase of 15.3% from December 31, 2018. Mackenzie's mutual fund assets under management were $60.8 billion at December 31, 2019, an increase of 13.9% from $53.4 billion at December 31, 2018. Mackenzie's ETF assets were $4.7 billion at December 31, 2019, inclusive of $1.6 billion in investments from Mackenzie mutual funds, compared to $2.9 billion at December 31, 2018, inclusive of $848 million in investments from Mackenzie mutual funds.

In the three months ended December 31, 2019, Mackenzie's mutual fund gross sales were $2.6 billion, the highest fourth quarter gross sales in the Company's history, compared to $2.3 billion in 2018. Mutual fund redemptions in the current quarter were $2.6 billion, an increase of 3.8% from last year. Mutual fund net sales for the three months ended December 31, 2019 were $18 million, as compared to net redemptions of $146 million last year. In the three months ended December 31, 2019, ETF net creations were $646 million compared to $137 million last year, inclusive of $399 million and $82 million, respectively, in investments from Mackenzie mutual funds. Investment fund net sales in the current quarter were $265 million compared to net redemptions of $91 million last year. During the current quarter, investment returns resulted in investment fund assets increasing by $1.6 billion compared to a decrease of $3.9 billion last year.

During the fourth quarter of 2019, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of $129 million, redemptions of $165 million and net redemptions of $36 million. Excluding these transactions in 2019, mutual fund gross sales increased 5.6% and mutual fund redemptions decreased 2.8% in the three months ended December 31, 2019 compared to last year and mutual fund net sales of $54 million in 2019 compared to mutual fund net redemptions of $146 million last year.

Total net sales for the three months ended December 31, 2019 were $179 million, compared to net redemptions of $315 million last year. During the current quarter, investment returns resulted in assets increasing by $1.8 billion compared to a decrease of $4.3 billion last year. Excluding the mutual fund allocation changes made by third party programs during the fourth quarter of 2019, total net sales were $215 million in the current quarter compared to net redemptions of $315 million last year.

In the twelve months ended December 31, 2019, Mackenzie's mutual fund gross sales were $9.9 billion, a decrease of 0.7% from $10.0 billion in the comparative period last year. Mutual fund redemptions in the current period were $9.4 billion, a decrease of 4.7% from last year. Mutual fund net sales for the twelve months ended December 31, 2019 were $512 million, as compared to net sales of $113 million last year. In the twelve months ended December 31, 2019, ETF net creations were $1.6 billion, inclusive of $655 million in investments from Mackenzie mutual funds, compared to ETF net creations of $1.8 billion, inclusive of $530 million in investments from Mackenzie mutual funds last year. Investment fund net sales in the current period were $1.4 billion, an increase of 2.5% from last year. During the current period, investment returns resulted in investment fund assets increasing by $7.1 billion as compared to a decrease of $2.4 billion last year.

During the twelve months ended December 31, 2019, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of $129 million, redemptions of $165 million and net redemptions of $36 million. During the twelve months ended December 31, 2018, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of $409 million, redemptions of $807 million and net redemptions of $398 million. Excluding these transactions in 2019 and 2018, mutual fund gross sales increased 2.3% and mutual fund redemptions increased 2.0% in the twelve months ended December 31, 2019 compared to last year and mutual fund net sales were $548 million in the current year compared to $511 million last year.

Redemptions of long-term mutual funds in the three and twelve months ended December 31, 2019, were $2.5 billion and $9.0 billion, respectively, as compared to $2.4 billion and $9.5 billion last year. Redemptions of long-term mutual funds excluding mutual fund allocation changes made by third party programs were $8.8 billion in the twelve months ended December 31, 2019, compared to $8.7 billion last year. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 16.4% in the fourth quarter of 2019, compared to 17.1% in the fourth quarter of 2018. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 15.3% in the fourth quarter of 2019. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 15.6% at December 31, 2019, as compared to 17.1% last year. Mackenzie's twelve month trailing redemption rate for long-term funds, excluding rebalance transactions, was 15.3% at December 31, 2019, compared to 15.6% at December 31, 2018. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately

15.8% at December 31, 2019. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

Total net redemptions for the twelve months ended December 31, 2019 were $478 million, as compared to net sales of $895 million last year. During the twelve months ended December 31, 2019, investment returns resulted in assets increasing by $8.0 billion, compared to a decrease of $2.7 billion last year. During the third quarter of 2019, MD Financial Management reassigned $1.2 billion of sub-advisory mandates managed by Mackenzie. The pro-forma impact on Mackenzie's pre-tax earnings from these mandate changes is not meaningful. Excluding the reassigned MD Financial Management sub-advisory mandates during the third quarter of 2019 and the mutual fund allocation changes in 2019 and 2018 previously discussed, total net sales were $720 million for the current period compared to net sales of $1.3 billion last year.

CHANGE IN ASSETS UNDER MANAGEMENT – Q4 2019 VS. Q3 2019

Mackenzie's total assets under management at December 31, 2019, were $70.2 billion, an increase of 2.8% from $68.3 billion at September 30, 2019. Mackenzie's sub-advisory, institutional and other accounts at December 31, 2019 were $6.2 billion, an increase of 1.5% from $6.1 billion at September 30, 2019.

Mackenzie's investment fund assets under management were $64.0 billion at December 31, 2019, an increase of 3.0% from $62.2 billion at September 30, 2019. Mackenzie's mutual fund assets under management were $60.8 billion at December 31, 2019, an increase of 2.6% from $59.3 billion at September 30, 2019. Mackenzie's ETF assets were $4.7 billion at December 31, 2019, inclusive of $1.6 billion in investments from Mackenzie mutual funds compared to $4.1 billion at September 30, 2019, inclusive of $1.2 billion in investments from Mackenzie mutual funds.

For the quarter ended December 31, 2019, Mackenzie mutual fund gross sales were $2.6 billion, an increase of 14.8% from the third quarter of 2019. Mutual fund redemptions, which totalled $2.6 billion for the fourth quarter, increased by 21.5% from the previous quarter. Net sales of Mackenzie mutual funds for the current quarter were $18 million compared with net sales of $139 million in the previous quarter. Excluding the mutual fund allocation changes made by third party programs during the fourth quarter of 2019, mutual fund gross sales increased 9.1% and mutual fund redemptions increased 13.7% in the fourth quarter compared to the third quarter and mutual fund net sales of $54 million in the fourth quarter compared to net sales of $139 million in the third quarter.

Redemptions of long-term mutual fund assets in the current quarter were $2.5 billion, compared to $2.0 billion in the third quarter of 2019. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 16.4% compared to 13.7% for the third quarter. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding the mutual fund allocation changes made by third party programs was 15.3% during the fourth quarter. Net redemptions of long-term funds for the current quarter were $19 million compared to net sales of $88 million in the previous quarter.

For the quarter ended December 31, 2019, Mackenzie ETF net creations were $646 million, compared to $597 million in the third quarter. In the current quarter, ETF net creations were inclusive of $399 million in investments from Mackenzie mutual funds compared to $245 million in the third quarter.

Investment fund net sales in the current quarter were $265 million compared to net sales of $491 million in the third quarter. Excluding the mutual fund allocation changes made by third party programs during the fourth quarter of 2019, investment fund net sales of $301 million in the fourth quarter compared to net sales of $491 million in the third quarter.

INVESTMENT MANAGEMENT

Mackenzie has $140.1 billion in assets under management at December 31, 2019, including $69.9 billion of advisory mandates to the IG Wealth Management family of funds. It has teams located in Toronto, Montreal, Winnipeg, Boston, Dublin and Hong Kong.

This investment management organization continues to deliver its investment offerings through a boutique structure, with separate in-house investment teams which each have a distinct focus and investment approach. This boutique approach promotes diversification of styles and ideas and provides Mackenzie with a breadth of capabilities. Oversight is conducted through a common process intended to promote superior risk-adjusted returns over time. This process is focused upon i) identifying and encouraging each team's performance edge, ii) promoting best practices in portfolio construction, and iii) emphasizing risk management.

Mackenzie currently has fourteen boutiques. Initiatives during 2019 impacting the in-house investment offerings include the following:

- Mackenzie changed the portfolio management of two of its mutual funds by bringing their investment management in-house. The Mackenzie Fixed Income Team assumed

management of the Mackenzie Corporate Bond Fund and the Mackenzie North American Corporate Bond Fund. These funds were previously sub-advised by a third party.

- Mackenzie's Fixed Income Team assumed portfolio management responsibilities for all externally sub-advised mandates within the Symmetry Canadian Bond Fund. This fund is utilized in the Symmetry Managed Solutions program.

In addition to its own investment teams, Mackenzie supplements its investment capabilities through the use of third party sub-advisors in selected areas. These sub-advisors include Putnam Investments Inc., TOBAM, China AMC, Pax Ellevate Management LLC, Rockefeller & Co and Greenchip Financial.

Mackenzie's assets under management are diversified by investment objective as set out in Table 15. The development of a broad range of investment capabilities and products has proven to be, and continues to be, a key strength of the organization in satisfying the evolving financial needs of our clients.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At December 31, 2019, 48.3% of Mackenzie mutual fund assets were rated in the top two performance quartiles for the one year time frame, 54.4% for the three year time frame and 58.3% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar† fund ranking service. At December 31, 2019, 75.1% of Mackenzie mutual fund assets measured by Morningstar† had a rating of three stars or better and 47.3% had a rating of four or five stars. This compared to the Morningstar† universe of 83.9% for three stars or better and 46.0% for four and five star funds at December 31, 2019. These ratings exclude the Quadrus Group of Funds†.

Mackenzie was once again recognized for industry leading performance, winning four 2019 Lipper Awards. The award honours funds that lead in delivering strong, risk-adjusted performance relative to their peers:

- Mackenzie Canadian Growth Balanced Fund Series A – Best three-year and five-year performance in the Canadian Equity Balanced category. This fund is co-managed by Mackenzie's Bluewater, Fixed Income and Asset Allocation Teams.
- Mackenzie Floating Rate Income Fund Series A – Best three-year performance in the Floating Rate Loan category. This fund is managed by Mackenzie's Fixed Income Team
- Mackenzie Core Plus Canadian Fixed Income ETF – Best three-year performance in the Canadian Fixed Income category. This fund is managed by Mackenzie's Fixed Income team.

In addition, twelve funds were recognized for industry leading performance at the 2019 Fundata FundGrade A+ Awards.

TABLE 15: ASSETS UNDER MANAGEMENT BY INVESTMENT OBJECTIVE – MACKENZIE

($ millions)		2019		2018
Equity				
Domestic	**$ 10,341**	**14.8 %**	$ 10,442	16.6 %
Foreign	**23,197**	**33.0**	19,932	31.8
	33,538	**47.8**	30,374	48.4
Balanced				
Domestic	**12,460**	**17.7**	11,135	17.7
Foreign	**14,273**	**20.3**	12,202	19.5
	26,733	**38.0**	23,337	37.2
Fixed Income				
Domestic	**4,898**	**7.0**	4,512	7.2
Foreign	**4,556**	**6.5**	4,021	6.4
	9,454	**13.5**	8,533	13.6
Money Market				
Domestic	**480**	**0.7**	484	0.8
Total	**$ 70,205**	**100.0 %**	$ 62,728	100.0 %
Consists of:				
Investment funds	**$ 63,991**	**91.1 %**	$ 55,508	88.5 %
Sub-advisory, institutional and other accounts	**6,214**	**8.9**	7,220	11.5
	$ 70,205	**100.0 %**	$ 62,728	100.0 %

PRODUCTS

Mackenzie continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their clients. In 2019, Mackenzie launched a number of new products, implemented pricing enhancements, and merged mutual funds to streamline and strengthen its product shelf.

EXCHANGE TRADED FUNDS

The addition of Exchange Traded Funds (ETF) has complemented Mackenzie's broad and innovative fund line-up and reflects its investor-focused vision to provide advisors and investors with new solutions to drive investor outcomes and achieve their personal goals. These ETFs offer investors another investment option to utilize in building long-term diversified portfolios.

During 2019, Mackenzie launched two new ETFs:

- Mackenzie Emerging Markets Bond Index ETF was launched to provide investors with broad exposure to emerging markets while investing in U.S. denominated, emerging market government bonds and government related bonds. This ETF hedges foreign currency back to the Canadian dollar.
- Mackenzie Emerging Markets Local Currency Bond Index ETF was launched to provide investors with the opportunity to access the strong growth and diversification benefits of investing in emerging markets.

Assets under management of these two launches surpassed $350 million by the end of the year, inclusive of $277 million in investments from Mackenzie mutual funds.

Mackenzie's current line-up consists of thirty ETFs: fifteen active and strategic beta ETFs and fifteen traditional index ETFs. During 2019, two milestones were achieved: i) ETF assets under management surpassed $4 billion and ii) traditional index ETF assets under management reached $2.0 billion. ETF assets under management ended the year at $4.7 billion, an all-time high, inclusive of $1.6 billion in investments from Mackenzie mutual funds. This ranks Mackenzie in sixth place in the Canadian ETF industry for assets under management. Mackenzie's ETF assets under management passed $5 billion in January 2020.

MUTUAL FUNDS

During 2019 Mackenzie launched five mutual funds:

- Mackenzie Global Growth Balanced Fund was launched to give investors stronger geographic diversification and enhanced return potential. The Fund is managed by the Mackenzie Bluewater and Mackenzie Fixed Income Teams. Assets under management in this fund were $150 million by the end of the year.
- Three new liquid alternative funds (Mackenzie Credit Absolute Return Fund, Mackenzie Global Macro Fund and Mackenzie Global Long/Short Equity Alpha Fund) were launched to enhance diversified sources of return and improve portfolio stability. These three new funds bring our liquid alternative offering to five funds, supplementing our earlier launches of the Mackenzie Diversified Alternatives Fund and Mackenzie Multi-Strategy Absolute Return Funds which have attracted $1.3 billion to date.
- Mackenzie International Dividend Fund was launched to provide investors with access to high-quality, dividend-paying companies outside of Canada and the U.S. in order to help diversify geographic concentration. This fund is managed by Mackenzie's Global Equity & Income Team.

During 2019, Mackenzie also merged five mutual funds to streamline and strengthen its product shelf and make it easier to navigate.

PRICING ENHANCEMENTS

Mackenzie is focused on delivering clear, consistent and competitive pricing. Initiatives implemented during 2019 include the following:

- Mackenzie reduced management fees by 5 to 15 basis points on the six High Diversification funds sub-advised by TOBAM, two fixed income mutual funds and five ETF Portfolios.
- Mackenzie reduced management fees on all thirteen traditional index ETFs by 1 to 16 basis points.

Mackenzie's segment excludes revenue earned on advisory mandates to IG Wealth Management funds and investments into Mackenzie mutual funds by IG Wealth Management mutual funds. The costs of the investment management team have been allocated across segments.

Mackenzie's earnings before interest and taxes are presented in Table 16.

2019 VS. 2018

REVENUES

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. For example, equity-based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail basis.

Within Mackenzie's retail mutual fund offering, certain series are offered for fee-based programs of participating dealers whereby dealer compensation on such series is charged directly by the dealer to a client (primarily Series F). As Mackenzie does not pay

TABLE 16: OPERATING RESULTS – MACKENZIE

THREE MONTHS ENDED ($ millions)	**2019 DEC. 31**	2019 SEP. 30	2018 DEC. 31	% CHANGE 2019 SEP. 30	% CHANGE 2018 DEC. 31
Revenues					
Management fees	**$ 180.4**	$ 178.6	$ 169.9	1.0 %	6.2 %
Administration fees	**25.5**	25.0	23.8	2.0	7.1
Distribution fees	**1.4**	1.4	1.4	–	–
	207.3	205.0	195.1	1.1	6.3
Net investment income and other	**0.6**	(1.4)	(3.1)	N/M	N/M
	207.9	203.6	192.0	2.1	8.3
Expenses					
Commission	**5.6**	5.4	5.7	3.7	(1.8)
Trailing commission	**68.3**	67.6	64.0	1.0	6.7
Non-commission	**92.6**	84.2	86.9	10.0	6.6
	166.5	157.2	156.6	5.9	6.3
Earnings before interest and taxes	**$ 41.4**	$ 46.4	$ 35.4	(10.8) %	16.9 %

TWELVE MONTHS ENDED ($ millions)	**2019 DEC. 31**	2018 DEC. 31	% CHANGE
Revenues			
Management fees	**$ 703.5**	$ 701.4	0.3 %
Administration fees	**98.3**	98.4	(0.1)
Distribution fees	**5.8**	6.7	(13.4)
	807.6	806.5	0.1
Net investment income and other	**4.2**	(1.9)	N/M
	811.8	804.6	0.9
Expenses			
Commission	**24.8**	28.7	(13.6)
Trailing commission	**268.1**	262.4	2.2
Non-commission	**350.4**	335.1	4.6
	643.3	626.2	2.7
Earnings before interest and taxes	**$ 168.5**	$ 178.4	(5.5) %

the dealer compensation, these series have lower management fees. At December 31, 2019, these series had $11.0 billion in assets, an increase of 32.8% from the prior year.

Management fees were $180.4 million for the three months ended December 31, 2019, an increase of $10.5 million or 6.2% from $169.9 million last year. Management fees were $703.5 million for the twelve months ended December 31, 2019, an increase of $2.1 million or 0.3% from $701.4 million last year. The increase in both the three and twelve month periods was due to an increase in total average assets under management offset by a decline in the effective management fee rate. Mackenzie's average management fee rate was 103.8 and 104.0 basis points in the three and twelve months ended December 31, 2019 compared to 104.3 and 106.5 basis points, respectively, in the comparative periods in 2018.

The net change in management fees was due to a decline in the average management fee rate, offset by the increase in total average assets under management of 2.9%. Mackenzie's average management fee rate in the twelve months ended December 31, 2019 was 104.0 basis points compared to 106.5 basis points in 2018.

The decrease in the average management fee rate in both the three and twelve month periods was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products and Series F.

Mackenzie earns administration fees primarily from providing services to its investment funds. Administration fees were $25.5 million for the three months ended December 31, 2019, an increase of $1.7 million or 7.1% from last year. Administration fees were $98.3 million for the twelve months ended December 31, 2019, a decrease of $0.1 million or 0.1% from $98.4 million last year.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Redemption fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Redemption fees for low load assets range from 2.0% to 3.0% in the first year and decrease to zero after two or three years, depending on the purchase option. Distribution fee income in the three months ended December 31, 2019 was $1.4 million, unchanged from the prior year. Distribution fee income in the twelve months ended December 31, 2019 was $5.8 million, a decrease of $0.9 million from $6.7 million last year.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was $0.6 million for the three months ended December 31, 2019 compared to ($3.1) million last year. Net investment income and other was $4.2 million for the twelve months ended December 31, 2019, an increase of $6.1 million from ($1.9) million last year.

EXPENSES

Mackenzie's expenses were $166.5 million for the three months ended December 31, 2019, an increase of $9.9 million or 6.3% from $156.6 million in 2018. Expenses for the twelve months ended December 31, 2019 were $643.3 million, an increase of $17.1 million or 2.7% from $626.2 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. Commissions paid are expensed as incurred.

Commission expense was $5.6 million in the three months ended December 31, 2019, as compared to $5.7 million last year. Commission expense in the twelve months ended December 31, 2019 was $24.8 million compared to $28.7 million in 2018.

Trailing commissions paid to dealers are paid on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were $68.3 million in the three months ended December 31, 2019, an increase of $4.3 million or 6.7% from $64.0 million last year. Trailing commissions in the twelve months ended December 31, 2019 were $268.1 million, an increase of $5.7 million or 2.2% from $262.4 million last year. The increase in both the three and twelve month periods was primarily due to the increase in average mutual fund assets offset by a decline in the effective trailing commission rate. Trailing commissions as a percentage of average mutual fund assets under management was 45.6 and 46.0 basis points in the three and twelve months ended December 31, 2019 compared to 46.6 and 46.7 basis points in the three and twelve months ended December 31, 2018. The decline was due to a change in composition of mutual fund assets towards those series within mutual funds that do not pay trailing commissions.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were $92.6 million in the three months ended December 31, 2019, an increase of $5.7 million or 6.6% from $86.9 million in 2018. Non-commission expenses in the twelve months ended December 31, 2019 were $350.4 million, an increase of $15.3 million or 4.6% from $335.1 million in 2018.

Q4 2019 VS. Q3 2019

REVENUES

Mackenzie's revenues were $207.9 million for the current quarter, an increase of $4.3 million or 2.1% from $203.6 million in the third quarter.

Management fees were $180.4 million for the current quarter, an increase of $1.8 million or 1.0% from $178.6 million in the third quarter. Factors contributing to the net increase are as follows:

- Average assets under management were $69.1 billion in the current quarter, an increase of 1.4% from the prior quarter.
- Mackenzie's average management fee rate was 103.8 basis points in the current quarter compared to 104.2 basis points in the prior quarter.

Administration fees were $25.5 million in the current quarter, an increase of 2.0% from $25.0 million in the third quarter.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. Net investment income and other was $0.6 million for the current quarter compared to ($1.4) million in the third quarter.

EXPENSES

Mackenzie's expenses were $166.5 million for the current quarter, an increase of $9.3 million or 5.9% from $157.2 million in the third quarter.

Commission expense related to selling commissions paid was $5.6 million in the quarter ended December 31, 2019, as compared to $5.4 million in the third quarter.

Trailing commissions were $68.3 million in the current quarter, an increase of $0.7 million or 1.0% from $67.6 million in the third quarter. The change in trailing commissions reflects the 1.5% period over period increase in average mutual fund assets under management, offset in part by a decline in the effective trailing commission rate. The effective trailing commission rate was 45.6 basis points in the current quarter compared to 45.8 basis points in the third quarter.

Non-commission expenses were $92.6 million in the current quarter, an increase of $8.4 million from $84.2 million in the third quarter, primarily attributed to the seasonality of expenses.

CORPORATE AND OTHER

REVIEW OF SEGMENT OPERATING RESULTS

The Corporate and Other segment includes net investment income not allocated to the IG Wealth Management or Mackenzie segments, the Company's proportionate share of earnings of its associates, Great-West Lifeco Inc. (Lifeco), China Asset Management Co., Ltd. (China AMC) and Personal Capital Corporation (Personal Capital), operating results for Investment Planning Counsel Inc., other income, as well as consolidation elimination entries.

On January 24, 2019, the Company invested an additional amount of $66.8 million (USD $50.0 million) in Personal Capital and, as a result, the Company began using the equity method to account for its investment in Personal Capital as it exercises significant influence. Significant influence arises from its voting interest and board representation.

The Company also has investments in Wealthsimple Financial Corporation and Portag3 Ventures LPs.

Corporate and other earnings before interest and taxes are presented in Table 17.

2019 VS. 2018

The proportionate share of associates' earnings decreased by $2.0 million in the fourth quarter of 2019 and decreased by $27.6 million in the year ended December 31, 2019, compared to 2018. These earnings reflect equity earnings from Lifeco and China AMC for all periods under review and from Personal Capital beginning in the first quarter 2019, as discussed in the Consolidated Financial Position section of this MD&A. The decrease in the fourth quarter resulted primarily from the inclusion of the Company's proportionate share of Personal Capital's losses of $4.5 million, offset in part by an increase in Lifeco's earnings of $2.5 million. The decrease in the twelve month period ended December 31, 2019, resulted primarily from the inclusion of the Company's proportionate share of Personal Capital's losses of $16.8 million and the decrease in Lifeco's earnings of $11.9 million over 2018. Net investment income and other decreased to $3.9 million in the fourth quarter of 2019 compared to $5.3 million in 2018. For the twelve month period, net investment income and other decreased to $16.6 million compared to $17.1 million in 2018.

TABLE 17: OPERATING RESULTS – CORPORATE AND OTHER

				% CHANGE	
THREE MONTHS ENDED *($ millions)*	**2019 DEC. 31**	2019 SEP. 30	2018 DEC. 31	2019 SEP. 30	2018 DEC. 31
Revenues					
Fee income	**$ 70.5**	$ 71.7	$ 71.6	(1.7) %	(1.5) %
Net investment income and other	**3.9**	3.2	5.3	21.9	(26.4)
Proportionate share of associates' earnings	**32.6**	28.9	34.6	12.8	(5.8)
	107.0	103.8	111.5	3.1	(4.0)
Expenses					
Commission	**44.8**	44.7	46.4	0.2	(3.4)
Non-commission	**21.5**	21.9	22.5	(1.8)	(4.4)
	66.3	66.6	68.9	(0.5)	(3.8)
Earnings before interest and taxes	**$ 40.7**	$ 37.2	$ 42.6	9.4 %	(4.5) %

TWELVE MONTHS ENDED *($ millions)*	**2019 DEC. 31**	2018 DEC. 31	% CHANGE
Revenues			
Fee income	**$ 284.0**	$ 290.7	(2.3) %
Net investment income and other	**16.6**	17.1	(2.9)
Proportionate share of associates' earnings	**122.4**	150.0	(18.4)
	423.0	457.8	(7.6)
Expenses			
Commission	**179.5**	184.2	(2.6)
Non-commission	**88.1**	88.3	(0.2)
	267.6	272.5	(1.8)
Earnings before interest and taxes	**$ 155.4**	$ 185.3	(16.1) %

Earnings before interest and taxes related to Investment Planning Counsel were $1.4 million higher in the fourth quarter of 2019 compared to the same period in 2018 and were $0.7 million higher in the twelve month period.

Q4 2019 VS. Q3 2019

The proportionate share of associates' earnings was $32.6 million in the fourth quarter of 2019, an increase of $3.7 million from the third quarter of 2019 primarily resulting from an increase in Lifeco's earnings. Net investment income and other was $3.9 million in the fourth quarter of 2019, compared to $3.2 million in the third quarter.

Earnings before interest and taxes related to Investment Planning Counsel were $0.7 million lower in the fourth quarter of 2019 compared to the prior quarter.

IGM Financial's total assets were $15.4 billion at December 31, 2019, compared to $15.6 billion at December 31, 2018.

OTHER INVESTMENTS

The composition of the Company's securities holdings is detailed in Table 18.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)

Gains and losses on FVTOCI investments are recorded in Other comprehensive income.

CORPORATE INVESTMENTS

Corporate investments is primarily comprised of the Company's investments in Wealthsimple Financial Corporation, and Portag3 Ventures LP and Portag3 Ventures II LP. In January 2019, the Company made an additional investment of $66.8 million (USD $50.0 million) in Personal Capital Corporation which increased its voting interest to 22.7% resulting in the reclassification of $217.0 million on the Consolidated Balance Sheet from Corporate investments to Investment in associates.

Portag3 Ventures LP and Portag3 Ventures II LP (Portag3) are early-stage investment funds dedicated to backing innovating financial services companies and are controlled by the Company's parent, Power Financial Corporation. As at December 31, 2019, the Company had invested a total of $48.9 million in Portag3, including $14.8 million which was invested during 2019.

Wealthsimple Financial Corporation (Wealthsimple) is an online investment manager that provides financial investment guidance. As at December 31, 2019, the Company had invested a total of $186.9 million in Wealthsimple through a limited partnership controlled by the Company's parent, Power Financial Corporation. The Company invested a total of $51.9 million during the current year.

FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Securities classified as FVTPL include equity securities and proprietary investment funds. Gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Certain proprietary investment funds are consolidated where the Company has made the assessment that it controls the investment fund. The underlying securities of these funds are classified as FVTPL.

LOANS

The composition of the Company's loans is detailed in Table 19.

Loans consisted of residential mortgages and represented 46.8% of total assets at December 31, 2019, compared to 49.6% at December 31, 2018.

Loans measured at amortized cost are primarily comprised of residential mortgages sold to securitization programs sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled $6.9 billion at December 31, 2019, compared to $7.4 billion at December 31, 2018.

TABLE 18: OTHER INVESTMENTS

	DECEMBER 31, 2019		DECEMBER 31, 2018	
($ millions)	COST	FAIR VALUE	COST	FAIR VALUE
Fair value through other comprehensive income				
Corporate investments	**$ 245.0**	**$ 301.2**	$ 303.6	$ 372.4
Fair value through profit or loss				
Equity securities	**1.6**	**1.8**	17.0	12.9
Proprietary investment funds	**51.3**	**54.4**	78.5	74.6
	52.9	**56.2**	95.5	87.5
	$ 297.9	**$ 357.4**	$ 399.1	$ 459.9

The Company holds loans pending sale or securitization. Loans measured at fair value through profit or loss are residential mortgages held temporarily by the Company pending sale. Loans held for securitization are carried at amortized cost. Total loans being held pending sale or securitization are $344.5 million at December 31, 2019 compared to $363.9 million at December 31, 2018.

Residential mortgages originated by IG Wealth Management are funded primarily through sales to third parties on a fully serviced basis, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization programs. IG Wealth Management services $12.0 billion of residential mortgages, including $2.4 billion originated by subsidiaries of Lifeco.

SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by IG Wealth Management mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes residential mortgages through the CMHC sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the Canada Mortgage Bond Program (CMB Program) and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is partially mitigated through the use of insurance. Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they are accounted for as secured borrowings. The Company records the transactions under these programs as follows: i) the mortgages and related obligations are carried at amortized cost, with interest income and interest expense, utilizing the effective interest rate method, recorded over the term of the mortgages, ii) the component of swaps entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal, are recorded at fair value, and iii) cash reserves held under the ABCP program are carried at amortized cost.

In the fourth quarter of 2019, the Company securitized loans through its mortgage banking operations with cash proceeds of $277.8 million compared to $531.3 million in 2018. Additional information related to the Company's securitization activities, including the Company's hedges of related reinvestment and interest rate risk, can be found in the Financial Risk section of this MD&A and in Note 6 to the Consolidated Financial Statements.

INVESTMENT IN ASSOCIATES

GREAT-WEST LIFECO INC. (LIFECO)

At December 31, 2019, the Company held a 4% equity interest in Lifeco. IGM Financial and Lifeco are controlled by Power Financial Corporation.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence. Changes in the carrying value for the year ended December 31, 2019 compared with 2018 are shown in Table 20.

In April 2019, the Company participated on a proportionate basis in the Lifeco substantial issuer bid by selling 2,400,255 of its shares in Lifeco for proceeds of $80.4 million. The Company's 4% interest in Lifeco remains substantially unchanged.

In June 2019, Lifeco recorded a one-time loss in relation to the sale of substantially all of its United States individual life insurance and annuity business. In December 2019, Lifeco recorded one-time charges in relation to the revaluation of a deferred tax asset, restructuring costs and the net gain on the Scottish Friendly transaction. The Company's after-tax proportionate share of these charges was $17.2 million.

TABLE 19: LOANS

($ millions)	**DECEMBER 31, 2019**	DECEMBER 31, 2018
Amortized cost	**$ 7,198.7**	$ 7,734.5
Less: Allowance for expected credit losses	**0.7**	0.8
	7,198.0	7,733.7
Fair value through profit or loss	**–**	4.3
	$ 7,198.0	$ 7,738.0

CHINA ASSET MANAGEMENT CO., LTD. (CHINA AMC)

Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained a position among the market leaders in China's asset management industry.

China AMC's total assets under management, excluding subsidiary assets under management, were RMB¥ 1,032.1 billion ($192.4 billion) at December 31, 2019, representing an increase of 17.3% (CAD$ increase of 10.3%) from RMB¥ 879.7 billion ($174.5 billion) at December 31, 2018.

The equity method is used to account for the Company's 13.9% equity interest in China AMC, as it exercises significant influence. Changes in the carrying value for the three and twelve months ended December 31, 2019 are shown in Table 20. The change in other comprehensive income in the twelve month period of 2019 was due to a 6.0% depreciation of the Chinese Yuan relative to the Canadian dollar.

PERSONAL CAPITAL CORPORATION (PERSONAL CAPITAL)

Founded in 2009 in the United States, Personal Capital is a leading digital wealth manager that has experienced significant growth since its inception.

As at December 31, 2019, Personal Capital had 2.41 million registered users, individuals who have signed up to use Personal Capital's free dashboard platform, representing an increase of 19.8% from 2.01 million at December 31, 2018 and an increase of 4.2% from 2.32 million at September 30, 2019.

Personal Capital's total assets under management were USD $12.3 billion as at December 31, 2019, representing an increase of 57.2% from USD $7.8 billion at December 31, 2018 and an increase of 13.6% from USD $10.8 billion as at September 30, 2019.

Tracked Account Value (TAV), the gross value of assets and liabilities aggregated by registered users, was USD $841 billion as at December 31, 2019, representing an increase of 32.0% from USD $637 billion at December 31, 2018 and an increase of 7.2% from USD $784 billion as at September 30, 2019.

The equity method is used to account for the Company's 24.8% equity interest in Personal Capital, as it exercises significant influence. IGM Financial's equity earnings from Personal Capital includes its proportionate share of Personal Capital's net loss adjusted by IGM Financial's amortization of intangible assets that it recognized as part of its investment in the company. Changes in the carrying value for the three and twelve months ended December 31, 2019 are shown in Table 20.

TABLE 20: INVESTMENT IN ASSOCIATES

($ millions)	2019 DECEMBER 31				2018 DECEMBER 31		
	LIFECO	CHINA AMC	PERSONAL CAPITAL	TOTAL	LIFECO	CHINA AMC	TOTAL
THREE MONTH PERIOD							
Carrying value, October 1	**$ 898.7**	**$ 651.2**	**$ 202.8**	**$ 1,752.7**	$ 967.4	$ 641.3	$ 1,608.7
Dividends received	**(15.4)**	**–**	**–**	**(15.4)**	(15.4)	–	(15.4)
Proportionate share of:							
Earnings (losses)[1]	**29.9**	**7.2**	**(4.5)**	**32.6**	27.4	7.2	34.6
Associate's one-time charges[1]	**(9.2)**	**–**	**–**	**(9.2)**	–	–	–
Other comprehensive income (loss) and other adjustments	**(7.3)**	**4.3**	**(3.8)**	**(6.8)**	(11.6)	35.0	23.4
Carrying value, December 31	**$ 896.7**	**$ 662.7**	**$ 194.5**	**$ 1,753.9**	$ 967.8	$ 683.5	$ 1,651.3
TWELVE MONTH PERIOD							
Carrying value, January 1	**$ 967.8**	**$ 683.5**	**$ –**	**$ 1,651.3**	$ 901.4	$ 647.9	$ 1,549.3
Transfer from corporate investments (FVTOCI)	**–**	**–**	**217.0**	**217.0**	–	–	–
Proceeds from substantial issuer bid	**(80.4)**	**–**	**–**	**(80.4)**	–	–	–
Dividends received	**(62.6)**	**(10.3)**	**–**	**(72.9)**	(61.8)	(12.2)	(74.0)
Proportionate share of:							
Earnings (losses)[1]	**109.1**	**30.1**	**(16.8)**	**122.4**	121.0	29.0	150.0
Associate's one-time charges[1]	**(17.2)**	**–**	**–**	**(17.2)**	–	–	–
Other comprehensive income (loss) and other adjustments	**(20.0)**	**(40.6)**	**(5.7)**	**(66.3)**	7.2	18.8	26.0
Carrying value, December 31	**$ 896.7**	**$ 662.7**	**$ 194.5**	**$ 1,753.9**	$ 967.8	$ 683.5	$ 1,651.3

(1) The proportionate share of earnings from the Company's investment in associates is recorded in Net investment income and other in the Corporate and other reportable segment (Tables 2, 3 and 4).

LIQUIDITY

Cash and cash equivalents totalled $720.0 million at December 31, 2019 compared with $650.2 million at December 31, 2018. Cash and cash equivalents related to the Company's deposit operations were $2.2 million at December 31, 2019, compared to $2.4 million at December 31, 2018, as shown in Table 21.

Working capital, which consists of current assets less current liabilities, totalled $464.3 million at December 31, 2019 compared with $366.1 million at December 31, 2018 (Table 22).

Working capital is utilized to:

- Finance ongoing operations, including the funding of sales commissions.
- Temporarily finance mortgages in its mortgage banking operations.
- Pay interest and dividends related to long-term debt and preferred shares.
- Maintain liquidity requirements for regulated entities.
- Pay quarterly dividends on its outstanding common shares.
- Finance common share repurchases and retirement of long-term debt.

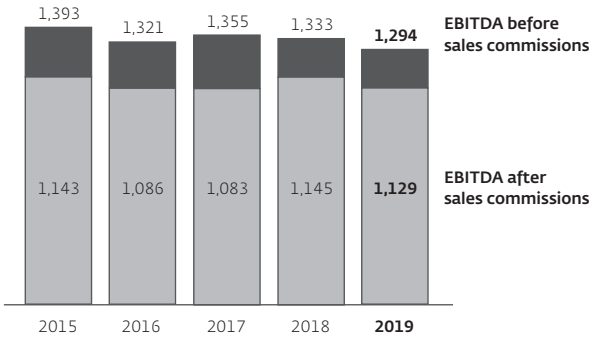
IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization before sales commissions (EBITDA before sales commissions) totalled $1,294.0 million in the year ended December 31, 2019 compared to $1,333.0 million in 2018. EBITDA before sales commissions excludes the impact of both commissions paid and commission amortization (refer to Table 1).

Earnings before interest, taxes, depreciation and amortization after sales commissions (EBITDA after sales commissions) totalled $1,128.9 million in the year ended December 31, 2019 compared to $1,144.5 million in 2018. EBITDA after sales commissions excludes the impact of commission amortization (refer to Table 1).

Refer to the Financial Instruments Risk section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity and funding risk.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

For the financial year ($ millions)



Adjusted EBITDA before and after sales commissions excluded the following:

2015 - a charge related to restructuring and other charges.

2017 - charges related to restructuring and other, a favourable revaluation of the Company's pension plan obligation, charges representing the proportionate share in Great-West Lifeco Inc.'s one-time charges and restructuring provision.

2018 - charges related to restructuring and other and the premium paid on the early redemption of debentures.

2019 - the Company's proportionate share in Great-West Lifeco Inc.'s one-time charges.

TABLE 21: DEPOSIT OPERATIONS – FINANCIAL POSITION

AS AT DECEMBER 31 *($ millions)*	2019	2018
Assets		
Cash and cash equivalents	$ 2.2	$ 2.4
Client funds on deposit	561.3	546.8
Accounts and other receivables	12.3	8.8
Loans	20.4	21.3
Total assets	$ 596.2	$ 579.3
Liabilities and shareholders' equity		
Deposit liabilities	$ 584.3	$ 568.8
Other liabilities	0.5	0.5
Shareholders' equity	11.4	10.0
Total liabilities and shareholders' equity	$ 596.2	$ 579.3

TABLE 22: WORKING CAPITAL

AS AT DECEMBER 31 *($ millions)*	2019	2018
Current Assets		
Cash and cash equivalents	**$ 720.0**	$ 650.2
Client funds on deposit	**561.3**	546.8
Accounts receivable and other assets	**345.3**	311.9
Current portion of mortgages and other	**1,531.7**	1,280.1
	3,158.3	2,789.0
Current Liabilities		
Accounts and other payables	**611.9**	644.7
Deposits and certificates	**579.0**	562.4
Current portion of long-term liabilities	**1,503.1**	1,215.8
	2,694.0	2,422.9
Working Capital	**$ 464.3**	$ 366.1

CASH FLOWS

Table 23 - Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Consolidated Financial Statements for the year ended December 31, 2019. Cash and cash equivalents increased by $69.8 million in 2019 compared to a decrease of $316.6 million in 2018.

Adjustments to determine net cash from operating activities during the year ended 2019 compared to 2018 consist of non-cash operating activities offset by cash operating activities:

- The add-back of amortization of capitalized sale commissions offset by the deduction of capitalized sales commissions paid.
- The add-back of amortization of capital, intangible and other assets.
- The deduction of investment in associates' equity earnings offset by dividends received.
- The add-back of pension and other post-employment benefits offset by cash contributions.
- Changes in operating assets and liabilities and other.
- The add-back of one-time adjustments in 2018, which included a restructuring provision and other.
- The deduction of restructuring provision cash payments.

Financing activities during the year ended December 31, 2019 compared to 2018 related to:

- An increase in obligations to securitization entities of $1,456.3 million and repayments of obligations to securitization entities of $1,960.8 million in 2019 compared to an increase in obligations to securitization entities of $1,771.7 million and repayments of obligations to securitization entities of $2,034.4 million in 2018.
- Issuance of debentures of $250.0 million in 2019, compared to the issuance of debentures of $200.0 million in 2018.

TABLE 23: CASH FLOWS

TWELVE MONTHS ENDED *($ millions)*	2019 DEC. 31	2018 DEC. 31	% CHANGE
Operating activities			
Earnings before income taxes	**$ 968.7**	$ 986.1	(1.8) %
Income taxes paid	**(236.7)**	(132.6)	(78.5)
Adjustments to determine net cash from operating activities	**(19.9)**	(68.3)	70.9
	712.1	785.2	(9.3)
Financing activities	**(1,068.9)**	(1,131.8)	5.6
Investing activities	**426.6**	30.0	N/M
Change in cash and cash equivalents	**69.8**	(316.6)	N/M
Cash and cash equivalents, beginning of year	**650.2**	966.8	(32.7)
Cash and cash equivalents, end of year	**$ 720.0**	$ 650.2	10.7 %

- Repayment of debentures of $525.0 million in 2018.
- Redemption of preferred shares of $150.0 million in the second quarter of 2019.
- The purchase of 2,762,788 common shares in 2019 under IGM Financial's normal course issuer bid at a cost of $100.0 million. There were no purchases in 2018.
- The payment of perpetual preferred share dividends which totalled $4.4 million in 2019 compared to $8.8 million in 2018.
- The payment of regular common share dividends which totalled $539.0 million in 2019 compared to $541.8 million in 2018.

Investing activities during the year ended December 31, 2019 compared to 2018 primarily related to:

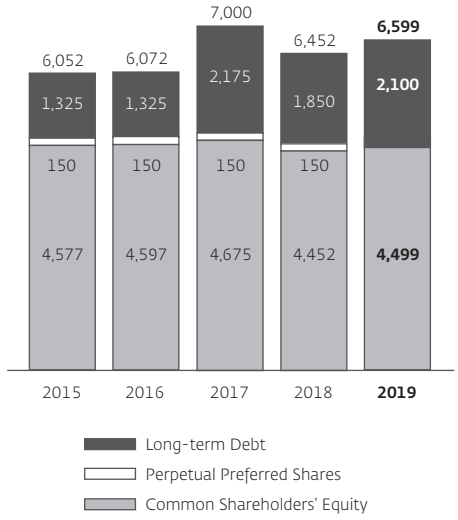
- The purchases of other investments totalling $118.9 million and sales of other investments with proceeds of $85.5 million in 2019 compared to $154.5 million and $93.5 million, respectively, in 2018.
- An increase in loans of $1,682.1 million with repayments of loans and other of $2,211.5 million in 2019 compared to $1,748.4 million and $1,895.6 million, respectively, in 2018, primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions was $64.1 million in 2019 compared to $49.1 million in 2018.
- An additional investment in Personal Capital of $66.8 million in the first quarter of 2019.
- Proceeds of $80.4 million from the sale of 2,400,255 Lifeco shares in 2019 as a result of the Company's participation in the Lifeco substantial issuer bid.

CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity which totalled $6.6 billion at December 31, 2019, compared to $6.4 billion at December 31, 2018. At December 31, 2018, capital included perpetual preferred shares of $150 million which were redeemed in April 2019. The Company regularly assesses its capital management practices in response to changing economic conditions.

Capital

As at December 31 ($ millions)



The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was $2.1 billion at December 31, 2019, compared to $1.9 billion at December 31, 2018. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants. The net increase in long-term debt resulted from the issuance on March 20, 2019 of $250.0 million 4.206% debentures maturing March 21, 2050.

The net proceeds from the issuance of the debenture was used by the Company in part to fund the redemption of $150 million 5.90% Non-Cumulative First Preferred Shares, Series B and for general corporate purposes. The Company redeemed the Series B Preferred Shares on April 30, 2019.

The Company purchased 2,762,788 common shares during the year ended December 31, 2019 at a cost of $100.0 million under its normal course issuer bid (refer to Note 17 to the Consolidated Financial Statements). The Company commenced a normal course issuer bid on March 26, 2019 to purchase up to 4 million of its common shares to provide the flexibility to manage its capital position while generating value for shareholders.

In connection with its normal course issuer bid, the Company has established an automatic securities purchase plan for its common shares. The automatic securities purchase plan provides standard instructions regarding how IGM Financial's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

Other activities in 2019 included the declaration of perpetual preferred share dividends of $2.2 million or $0.36875 per share and common share dividends of $537.6 million or $2.25 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

Standard & Poor's (S&P) current rating on the Company's senior unsecured debentures is "A" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The A rating assigned to IGM Financial's senior unsecured debentures by S&P is the sixth highest of the 22 ratings used for long-term debt. This rating indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. Under the DBRS long-term rating scale, debt securities rated A (High) are of good credit quality and the capacity for the payment of financial obligations is substantial. While this is a favourable rating, entities in the A (High) category may be vulnerable to future events, but qualifying negative factors are considered manageable.

TABLE 24: FINANCIAL INSTRUMENTS

	DECEMBER 31, 2019		DECEMBER 31, 2018	
($ millions)	**CARRYING VALUE**	**FAIR VALUE**	CARRYING VALUE	FAIR VALUE
Financial assets recorded at fair value				
Other investments				
– Fair value through other comprehensive income	**$ 301.2**	**$ 301.2**	$ 372.4	$ 372.4
– Fair value through profit or loss	**56.2**	**56.2**	87.5	87.5
Loans				
– Fair value through profit or loss	**–**	**–**	4.3	4.3
Derivative financial instruments	**15.2**	**15.2**	16.4	16.4
Financial assets recorded at amortized cost				
Loans				
– Amortized cost	**7,198.0**	**7,273.8**	7,733.7	7,785.5
Financial liabilities recorded at fair value				
Derivative financial instruments	**17.2**	**17.2**	29.0	29.0
Other financial liabilities	**–**	**–**	8.2	8.2
Financial liabilities recorded at amortized cost				
Deposits and certificates	**584.3**	**584.7**	568.8	569.0
Obligations to securitization entities	**6,913.6**	**6,997.0**	7,370.2	7,436.9
Long-term debt	**2,100.0**	**2,453.6**	1,850.0	2,050.3

FINANCIAL INSTRUMENTS

Table 24 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

- Other investments and other financial assets and liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity, specifically lending rates offered to retail borrowers by financial institutions.
- Loans classified as amortized cost are valued by discounting the expected future cash flows at prevailing market yields.
- Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.
- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

See Note 23 of the Consolidated Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the twelve months ended December 31, 2019.

The Company is exposed to a variety of risks that are inherent in its business activities. Its ability to manage these risks is key to its ongoing success. The Company emphasizes a strong risk management culture and the implementation of an effective risk management approach. The risk management approach coordinates risk management across the organization and its business units and seeks to ensure prudent and measured risk-taking in order to achieve an appropriate balance between risk and return. Fundamental to our enterprise risk management program is protecting and enhancing our reputation.

RISK MANAGEMENT FRAMEWORK

The Company's risk management approach is undertaken through its Enterprise Risk Management (ERM) Framework which includes five core elements: risk governance, risk appetite, risk principles, a defined risk management process, and risk management culture. The ERM Framework is established under the Company's ERM Policy, which is approved by the Risk Management Committee.

RISK GOVERNANCE

The Company's risk governance structure emphasizes a comprehensive and consistent framework throughout the Company and its subsidiaries, with identified ownership of risk management in each business unit and oversight by an executive Risk Management Committee accountable to the Board of Directors. Additional oversight is provided by the Enterprise Risk Management (ERM) Department, compliance groups, and the Company's Internal Audit Department.

The Board of Directors provides primary oversight and carries out its risk management mandate. The Board is responsible for the oversight of enterprise risk management by: i) ensuring that appropriate procedures are in place to identify and manage risks and establish risk tolerances, ii) ensuring that appropriate policies, procedures and controls are implemented to manage risks, and iii) reviewing the risk management process on a regular basis to ensure that it is functioning effectively.

Other specific risks are managed with the support of the following Board committees:

- The Audit Committee has specific risk oversight responsibilities in relation to financial disclosure, internal controls and the control environment as well as the Company's compliance activities.
- Other committees having specific risk oversight responsibilities include: i) the Human Resource Committee which oversees compensation policies and practices, ii) the Governance and Nominating Committee which oversees corporate governance practices, and iii) the Related Party and Conduct Review Committee which oversees conflicts of interest as well as the administration of the Code of Business Conduct and Ethics for Directors, Officers and Employees (Code of Conduct).

Management oversight for risk management resides with the executive Risk Management Committee which is comprised of the President and Chief Executive Officer, IGM Financial and IG Wealth Management, the President and Chief Executive Officer, Mackenzie Investments, the Chief Financial Officer, the General Counsel, the Chief Operating Officer and the Executive Vice President Chief Strategy and Corporate Development Officer. The committee is responsible for providing oversight of the Company's risk management process by: i) establishing and maintaining the risk framework and policy, ii) defining the Company's risk appetite, iii) ensuring the Company's risk profile and processes are aligned with corporate strategy and risk appetite, and iv) establishing "tone at the top" and reinforcing a strong culture of risk management.

The Chief Executive Officers of the operating companies have overall responsibility for overseeing risk management of their respective companies.

The Company has assigned responsibility for risk management using the Three Lines of Defence model, with the First Line reflecting the business units having primary responsibility for risk management, supported by Second Line risk management functions and a Third Line Internal Audit function providing assurance and validation of the design and effectiveness of the ERM Framework.

First Line of Defence

The leaders of the various business units and support functions have primary ownership and accountability for the ongoing risk management associated with their respective activities. Responsibilities of business unit and support function leaders include: i) establishing and maintaining procedures for the identification, assessment, documentation and escalation of risks, ii) implementing control activities to mitigate risks, iii) identifying opportunities for risk reduction or transfer, and iv) aligning business and operational strategies with the risk culture and risk appetite of the organization as established by the Risk Management Committee.

Second Line of Defence

The Enterprise Risk Management (ERM) Department provides oversight, analysis and reporting to the Risk Management Committee on the level of risks relative to the established risk appetite for all activities of the Company. Other responsibilities include: i) developing and maintaining the enterprise risk management program and framework, ii) managing the enterprise risk management process, and iii) providing guidance and training to business unit and support function leaders.

The Company has a number of committees of senior business leaders which provide oversight of specific business risks, including the Financial Risk Management and Operational Risk Management committees. These committees perform critical reviews of risk assessments, risk management practices and risk response plans developed by business units and support functions.

Other oversight accountabilities reside with the Company's corporate and compliance groups which are responsible for ensuring compliance with policies, laws and regulations.

Third Line of Defence

The Internal Audit Department is the third line of defence and provides independent assurance to senior management and the Board of Directors on the effectiveness of risk management policies, processes and practices.

RISK APPETITE AND RISK PRINCIPLES

The Risk Management Committee establishes the Company's appetite for different types of risk through the Risk Appetite Framework. Under the Risk Appetite Framework, one of four appetite levels is established for each risk type and business activity of the Company. These appetite levels range from those where the Company has no appetite for risk and seeks to minimize any losses, to those where the Company readily accepts exposure while seeking to ensure that risks are well understood and managed. These appetite levels guide our business units as they engage in business activities, and inform them in establishing policies, limits, controls and risk transfer activities.

A Risk Appetite Statement and Risk Principles provide further guidance to business leaders and employees as they conduct risk management activities. The Risk Appetite Statement's emphasis is to maintain the Company's reputation and brand, ensure financial flexibility, and focus on mitigating operational risk.

RISK MANAGEMENT PROCESS

The Company's risk management process is designed to foster:

- Ongoing assessment of risks and tolerance in a changing operating environment.
- Appropriate identification and understanding of existing and emerging risks and risk response.
- Timely monitoring and escalation of risks based upon changing circumstances.

Significant risks that may adversely affect the Company's ability to achieve its strategic and business objectives are identified through the Company's ongoing risk management process.

We use a consistent methodology across our organizations and business units for identification and assessment of risks. Risks are assessed by evaluating the impact and likelihood of the potential risk event after consideration of controls and any risk transfer activities. The results of these assessments are considered relative to risk appetite and tolerances and may result in action plans to adjust the risk profile.

Risk assessments are monitored and reviewed on an ongoing basis by business units and by oversight areas including the ERM Department. The ERM Department promotes and coordinates communication and consultation to support effective risk management and escalation. The ERM Department regularly reports on the results of risk assessments and on the assessment process to the Risk Management Committee and to the Board of Directors.

RISK MANAGEMENT CULTURE

Risk management is intended to be everyone's responsibility within the organization. The ERM Department engages all business units in workshops to foster awareness and incorporation of our risk framework into our business activities.

We have an established business planning process which reinforces our risk management culture. Our compensation programs are typically objectives-based, and do not encourage or reward excessive or inappropriate risk taking, and often are aligned specifically with risk management objectives.

Our risk management program emphasizes integrity, ethical practices, responsible management and measured risk-taking with a long-term view. Our standards of integrity and ethics are reflected within our Code of Conduct which applies to directors, officers and employees.

KEY RISKS OF THE BUSINESS

The Company identifies risks to which its businesses and operations could be exposed considering factors both internal and external to the organization. These risks are broadly grouped into six categories.

1) FINANCIAL RISK

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

The Company's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.
- Ensuring effective controls over liquidity management processes.

- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity management by the Financial Risk Management Committee, a committee of finance and other business leaders.

A key funding requirement for the Company is the funding of Consultant network compensation paid for the distribution of financial products and services. This compensation continues to be paid from operating cash flows.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements related to the mortgage banking operation. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the CMB Program. The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions and government regulations that are subject to change. A condition of the NHA MBS and CMB Program is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions and is subject to change.

As part of ongoing liquidity management during 2019 and 2018, the Company:

- Continued to assess additional funding sources for the Company's mortgage banking operations.
- Repaid the $150 million 6.58% debentures in March 2018.
- Issued $200 million of 30 year 4.174% debentures in July 2018. The net proceeds were used by IGM Financial, together with a portion of IGM Financial's existing internal cash resources, to fund the early redemption in August of all of its $375 million aggregate principal amount of 7.35% debentures due April 8, 2019.
- Issued $250 million 4.206% debentures in March 2019 maturing March 21, 2050. The net proceeds were used by the Company to fund the redemption of $150 million 5.90% Non-Cumulative First Preferred Shares, Series B and for general corporate purposes. The Company redeemed the Series B Preferred Shares on April 30, 2019.
- Participated in the Lifeco substantial issuer bid by selling 2,400,255 of its shares in Lifeco for proceeds of $80.4 million.

The Company's contractual obligations are reflected in Table 25.

The maturity schedule for long-term debt of $2.1 billion is reflected in the accompanying chart (Long-Term Debt Maturity Schedule).

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled $825 million at December 31, 2019, unchanged from December 31, 2018. The

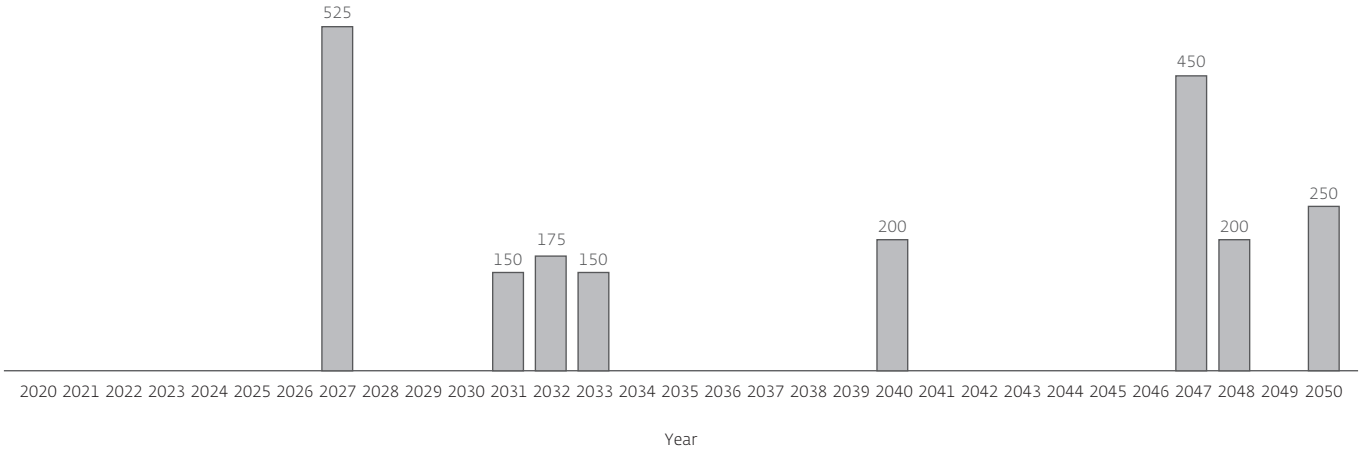
TABLE 25: CONTRACTUAL OBLIGATIONS

AS AT DECEMBER 31, 2019 *($ millions)*	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	$ –	$ 6.9	$ 10.1	$ 0.2	$ 17.2
Deposits and certificates	573.0	6.0	4.2	1.1	584.3
Obligations to securitization entities	–	1,473.6	5,431.5	8.5	6,913.6
Leases[1]	–	26.2	54.7	23.5	104.4
Long-term debt	–	–	–	2,100.0	2,100.0
Pension funding[2]	–	26.1	–	–	26.1
Total contractual obligations	$ 573.0	$ 1,538.8	$ 5,500.5	$ 2,133.3	$ 9,745.6

(1) Includes remaining lease payments related to office space and equipment used in the normal course of business.

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2020. Pension funding requirements beyond 2020 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

Long-Term Debt Maturity Schedule
($ millions)



lines of credit at December 31, 2019 consisted of committed lines of $650 million and uncommitted lines of $175 million, unchanged from December 31, 2018. The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at December 31, 2019 and December 31, 2018, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2017, was completed in May 2018. The valuation determines the plan surplus or deficit on both a solvency and going concern basis. The solvency basis determines the relationship between the plan assets and its liabilities assuming that the plan is wound up and settled on the valuation date. A going concern valuation compares the relationship between the plan assets and the present value of the expected future benefit cash flows, assuming the plan will be maintained indefinitely. Based on the actuarial valuation, the registered pension plan had a solvency deficit of $47.2 million compared to $82.7 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2016. The decrease in the solvency deficit resulted primarily from higher assets due to contribution and investment returns and is required to be funded over five years. The registered pension plan had a going concern surplus of $46.1 million compared to $24.4 million in the previous valuation. The next required actuarial valuation will be based on a measurement date of December 31, 2020. During 2019, the Company made contributions of $26.4 million (2018 - $40.4 million). The Company utilized $10.5 million of the payments made during 2018 to reduce its solvency deficit and increase its going concern surplus. The Company expects to make contributions of approximately $26.1 million in 2020. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2018.

CREDIT RISK

Credit risk is the potential for financial loss to the Company if a counterparty to a transaction fails to meet its obligations.

The Company's cash and cash equivalents, other investment holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

Cash and Cash Equivalents

At December 31, 2019, cash and cash equivalents of $720.0 million (2018 - $650.2 million) consisted of cash balances of $68.0 million (2018 - $81.8 million) on deposit with Canadian chartered banks and cash equivalents of $652.0 million (2018 - $568.4 million). Cash equivalents are comprised of Government of Canada treasury bills totalling $34.5 million (2018 - $103.5 million), provincial government treasury bills and promissory notes of $206.5 million (2018 - $76.2 million), bankers' acceptances and other short-term notes issued by Canadian chartered banks of $411.0 million (2018 - $364.3 million). Also included in 2018 were highly rated corporate commercial paper of $24.4 million.

The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

The Company's exposure to and management of credit risk related to cash and cash equivalents and fixed income securities have not changed materially since December 31, 2018.

Mortgage Portfolio

As at December 31, 2019, residential mortgages, recorded on the Company's balance sheet, of $7.2 billion (2018 - $7.7 billion) consisted of $6.8 billion sold to securitization programs (2018 - $7.3 billion), $344.5 million held pending sale or securitization (2018 - $363.9 million) and $24.2 million related to the Company's intermediary operations (2018 - $25.6 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's IG Living Plan.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling $3.9 billion (2018 - $4.2 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling $2.9 billion (2018 – $3.1 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were $71.9 million (2018 - $74.1 million) and $37.9 million (2018 - $35.6 million), respectively, at December 31, 2019. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 4.6% of mortgages held in ABCP Trusts insured at December 31, 2019 (2018 – 8.3%).

At December 31, 2019, residential mortgages recorded on balance sheet were 59.1% insured (2018 – 61.5%). As at December 31, 2019, impaired mortgages on these portfolios were $2.4 million, compared to $3.3 million at December 31, 2018. Uninsured non-performing mortgages over 90 days on these portfolios were $1.6 million at December 31, 2019, compared to $1.8 million at December 31, 2018.

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

The Company regularly reviews the credit quality of the mortgages and the adequacy of the allowance for expected credit losses.

The Company's allowance for expected credit losses was $0.7 million at December 31, 2019, compared to $0.8 million at December 31, 2018, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to mortgage portfolios have not changed materially since December 31, 2018.

Derivatives

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section of this MD&A.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfil their obligations under these arrangements.

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of $15.7 million (2018 - $19.4 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was $0.7 million at December 31, 2019 (2018 - nil). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at December 31, 2019. Management of credit risk related to derivatives has not changed materially since December 31, 2018.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Notes 2, 6 and 22 to the Annual Financial Statements.

MARKET RISK

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices.

Interest Rate Risk

The Company is exposed to interest rate risk on its mortgage portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking operations.

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of $0.9 million (December 31, 2018 – positive $4.9 million) and an outstanding notional amount of $0.8 billion at December 31, 2019 (December 31, 2018 - $0.9 billion). The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled negative $4.9 million (December 31, 2018 - negative $11.0 million), on an outstanding notional amount of $1.6 billion at December 31, 2019 (December 31, 2018 - $1.7 billion). The net fair value of these swaps of negative $5.8 million at December 31, 2019 (December 31, 2018 - negative $6.1 million) is recorded on the balance sheet and has an outstanding notional amount of $2.4 billion (December 31, 2018 - $2.6 billion).
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. Beginning in 2018, hedge accounting is applied to the cost of funds on certain securitization activities. The effective portion of fair value changes of the associated interest rate swaps are initially recognized in Other comprehensive income and subsequently recognized in Net investment income and other over the term of the related Obligations to securitization entities. The fair value of these swaps was $0.6 million (December 31, 2018 - negative $1.8 million) on an outstanding notional amount of $180.4 million at December 31, 2019 (December 31, 2018 - $249.9 million).

As at December 31, 2019, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately $2.0 million (December 31, 2018 - decrease of $0.5 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2018.

Equity Price Risk

The Company is exposed to equity price risk on its equity investments which are classified as either fair value through other comprehensive income or fair value through profit or loss. The fair value of the equity investments was $357.4 million at December 31, 2019 (December 31, 2018 - $459.9 million), as shown in Table 18.

The Company sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. The Company hedges its exposure to this risk through the use of forward agreements and total return swaps.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk on its investments in Personal Capital and China AMC. Changes to the carrying value due to changes in foreign exchange rates on these investments are recognized in Other comprehensive

income. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investments by approximately $40.5 million ($44.8 million).

The Company's proportionate share of China AMC's and Personal Capital's earnings (losses), recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings, is also affected by changes in foreign exchange rates. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the Company's proportionate share of associates' earnings (losses) by approximately $0.7 million ($0.6 million).

RISKS RELATED TO ASSETS UNDER MANAGEMENT

At December 31, 2019, IGM Financial's total assets under management were $166.8 billion compared to $149.1 billion at December 31, 2018.

The Company's primary sources of revenues are management, administration and other fees which are applied as an annual percentage of the level of assets under management. As a result, the level of the Company's revenues and earnings are indirectly exposed to a number of financial risks that affect the value of assets under management on an ongoing basis. These include market risks, such as changes in equity prices, interest rates and foreign exchange rates, as well as credit risk on debt securities, loans and credit exposures from other counterparties within our client portfolios.

Changing financial market conditions may also lead to a change in the composition of the Company's assets under management between equity and fixed income instruments, which could result in lower revenues depending upon the management fee rates associated with different asset classes and mandates.

The Company's exposure to the value of assets under management aligns it with the experience of its clients. Assets under management are broadly diversified by asset class, geographic region, industry sector, investment team and style. The Company regularly reviews the sensitivity of its assets under management, revenues, earnings and cash flow to changes in financial markets. The Company believes that over the long term, exposure to investment returns on its client portfolios is beneficial to the Company's results and consistent with stakeholder expectations, and generally it does not engage in risk transfer activities such as hedging in relation to these exposures.

2) OPERATIONAL RISK

Operational risks relating to people and processes are mitigated through policies and process controls. Oversight of risks and ongoing evaluation of the effectiveness of controls is provided by the Company's Compliance Department, ERM Department and Internal Audit Department.

The Company has an insurance review process where it assesses and determines the nature and extent of insurance that is appropriate to provide adequate protection against unexpected losses, and where it is required by law, regulators or contractual agreements.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human interaction or external events, but excludes business risk.

Operational risk affects all business activities, including the processes in place to manage other risks. As a result, operational risk can be difficult to measure, given that it forms part of other risks of the Company and may not always be separately identified. Our Company is exposed to a broad range of operational risks, including information technology security

TABLE 26: IGM FINANCIAL ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

AS AT DECEMBER 31, 2019	INVESTMENT FUNDS	TOTAL
Cash	1.8 %	2.0 %
Short-term fixed income and mortgages	4.8	4.7
Other fixed income	27.2	26.8
Domestic equity	22.2	22.3
Foreign equity	41.2	41.5
Real Property	2.8	2.7
	100.0 %	100.0 %
CAD	56.2 %	56.1 %
USD	28.4	28.2
Other	15.4	15.7
	100.0 %	100.0 %

and system failures, errors relating to transaction processing, financial models and valuations, fraud and misappropriation of assets, and inadequate application of internal control processes. The impact can result in significant financial loss, reputational harm or regulatory actions.

The Company's risk management framework emphasizes operational risk management and internal control. The Company has a very low appetite for risk in this area.

The business unit leaders are responsible for management of the day to day operational risks of their respective business units. Specific programs, policies, training, standards and governance processes have been developed to support the management of operational risk.

The Company has a business continuity management program to support the sustainment, management and recovery of critical operations and processes in the event of a business disruption.

TECHNOLOGY AND CYBER RISK

Technology and cyber risk driven by systems are managed through controls over technology development and change management. Information security is a significant risk to our industry and our Company's operations. The Company uses systems and technology to support its business operations and the client and financial advisor experience. As a result, we are exposed to risks relating to technology and cyber security such as data breaches, identity theft and hacking, including the risk of denial of service or malicious software attacks. Such attacks could compromise confidential information of the Company and that of clients or other stakeholders, and could result in negative consequences including lost revenue, litigation, regulatory scrutiny or reputational damage. To remain resilient to such threats, the Company has established enterprise-wide cyber security programs, benchmarked capabilities to sound industry practices, and has implemented threat and vulnerability assessment and response capabilities.

THIRD PARTY SERVICE PROVIDERS

The Company regularly engages third parties to provide expertise and efficiencies that support our operational activities. Our exposure to third party service provider risk could include reputational, regulatory and other operational risks. Policies, standard operating procedures and dedicated resources, including a supplier code of conduct, have been developed and implemented to specifically address third party service provider risk. Due diligence and monitoring activities are performed by the Company prior to entering into contractual relationships with third party service providers and on an ongoing basis. As our reliance on external service providers continues to grow, we continue to enhance resources and processes to support third party risk management.

MODEL RISK

The Company uses a variety of models to assist in: the valuation of financial instruments, operational scenario testing, management of cash flows, capital management, and assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models. However, changes in the internal assumptions or other factors affecting the models could have an adverse effect on the Company's consolidated financial position.

LEGAL AND REGULATORY COMPLIANCE

Legal and regulatory compliance risk is the risk of not complying with laws, contractual agreements or regulatory requirements. These risks relate to regulation governing product distribution, investment management, accounting, reporting and communications.

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The Company and its subsidiaries are also subject to the requirements of self-regulatory organizations to which they belong. These and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. These requirements include those that apply to IGM Financial as a publicly traded company and those that apply to the Company's subsidiaries based on the nature of their activities. They include regulations related to the management and provision of financial products and services, including securities, insurance and mortgages, and other activities carried on by the Company in the markets in which it operates. Regulatory standards affecting the Company and the financial services industry are significant and continually evolve. The Company and its subsidiaries are subject to reviews as part of the normal ongoing process of oversight by the various regulators.

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages legal and regulatory compliance risk through its efforts to promote a strong culture of compliance. The monitoring of regulatory developments and their impact on the Company is overseen by the Regulatory Initiatives Committee chaired by the Executive Vice-President, General Counsel. The Company also continues to develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

IGM Financial promotes a strong culture of ethics and integrity through its Code of Conduct approved by the Board of Directors, which outlines standards of conduct that apply to all IGM Financial directors, officers and employees. The Code of Conduct references many policies relating to the conduct of directors, officers and employees. Other corporate policies cover anti-money laundering and privacy. Training is provided on these policies on an annual basis. Individuals subject to the Code of Conduct attest annually that they understand the requirements and have complied with its provisions.

Business units are responsible for management of legal and regulatory compliance risk, and implementing appropriate policies, procedures and controls. The Company's Compliance Departments are responsible for providing oversight of all regulated compliance activities. The Internal Audit Department also provides oversight and investigations concerning regulatory compliance matters.

CONTINGENCIES

The Company is subject to legal actions arising in the normal course of its business. In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie which alleges that the company should not have paid mutual fund trailing commissions to order execution only dealers. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

3) GOVERNANCE, OVERSIGHT AND STRATEGIC RISK

Governance, oversight and strategic risk is the risk of potential adverse impacts resulting from inadequate or inappropriate governance, oversight, management of incentives and conflicts, and strategic planning.

IGM Financial believes in the importance of good corporate governance and the central role played by directors in the governance process. We believe that sound corporate governance is essential to the well-being of the Company and its shareholders.

Oversight of IGM Financial is performed by the Board of Directors directly and through its five committees. The Company's President and Chief Executive Officer has overall responsibility for management of the Company. The Company's activities are carried out principally by three operating companies - Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. - each of which are managed by a President and Chief Executive Officer.

The Company has a business planning process that supports development of an annual business plan, approved by the Board of Directors, which incorporates objectives and targets for the Company. Components of management compensation are associated with the achievement of earnings targets and other objectives associated with the plan. Strategic plans and direction are part of this planning process and are integrated into the Company's risk management program.

ACQUISITION RISK

The Company is also exposed to risks related to its acquisitions. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

4) REGULATORY DEVELOPMENTS

Regulatory development risk is the potential for changes to regulatory, legal, or tax requirements that may have an adverse impact upon the Company's business activities or financial results.

The Company is exposed to the risk of changes in laws, taxation and regulation that could have an adverse impact on the Company. Particular regulatory initiatives may have the effect of making the products of the Company's subsidiaries appear to be less competitive than the products of other financial service providers, to third party distribution channels and to clients. Regulatory differences that may impact the competitiveness of the Company's products include regulatory costs, tax treatment, disclosure requirements, transaction processes or other differences that may be as a result of differing regulation or application of regulation. Regulatory developments may also impact product structures, pricing, and dealer and advisor compensation. While the Company and its subsidiaries actively monitor such initiatives, and where feasible comment upon or discuss them with regulators, the ability of the Company and its subsidiaries to mitigate the imposition of differential regulatory treatment of financial products or services is limited.

CLIENT FOCUSED REFORMS

On October 3, 2019, the Canadian Securities Administrators (the CSA) published final rule amendments to implement enhancements to the obligations owed by registrants to their clients (the Client Focused Reforms).

The Client Focused Reforms include rule amendments that, when implemented, will require registrants to:

- Address all material conflicts of interest in the best interest of the client;
- Put the client's interest first when making a suitability determination; and
- Do more to clarify for clients what they should expect from their registrants.

The rule amendments are expected to come into force on December 31, 2019, with a phased transition period spanning over a two year period. The Company believes it is well positioned to implement the Client Focused Reforms.

MUTUAL FUND EMBEDDED COMMISSIONS

On December 19, 2019, the CSA published a notice announcing that all provinces and territories in Canada will eliminate trailing commissions paid to dealers who only execute orders and do not provide advice, such as discount brokers; and all provinces and territories, excluding Ontario, will eliminate the Deferred Sales Charge (DSC) purchase option.

The rule amendments are expected to be published in 2020 and be subject to a two-year transition period. The Ontario Securities Commission will explore alternative approaches to the elimination of the DSC purchase option in Ontario.

The Company believes it is well positioned to respond to these proposals, as IG Wealth Management and Investment Planning Counsel no longer offer the deferred sales charge option.

5) BUSINESS RISK

GENERAL BUSINESS CONDITIONS

General business conditions risk refers to the potential for an unfavourable impact on IGM Financial resulting from competitive or other external factors relating to the marketplace.

Global economic conditions, changes in equity markets, demographics and other factors including geopolitical risk and government instability, can affect investor confidence, income levels and savings decisions. This could result in reduced sales of IGM Financial's products and services and/or result in investors redeeming their investments. These factors may also affect the level and volatility of financial markets and the value of the Company's assets under management, as described more fully under the Risks Related to Assets Under Management section of this MD&A.

The Company, across its operating subsidiaries, is focused on communicating with clients and emphasizing the importance of financial planning across economic cycles. The Company and the industry continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility, Consultants and independent financial advisors play a key role in assisting investors in maintaining perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 27 and are discussed in the IG Wealth Management and Mackenzie Segment Operating Results sections of this MD&A.

PRODUCT/SERVICE OFFERING

There is potential for unfavourable impacts on IGM Financial resulting from inadequate product or service performance, quality or breadth.

IGM Financial and its subsidiaries operate in a highly competitive environment, competing with other financial service providers, investment managers and product and service types. Client development and retention can be influenced by a number of factors, including products and services offered by competitors, relative service levels, relative pricing, product attributes, reputation and actions taken by competitors. This competition could have an adverse impact upon the Company's financial position and operating results. Please refer to The Competitive Landscape section of this MD&A for further discussion.

The Company provides Consultants, independent financial advisors, as well as retail and institutional clients with a high level of service and support and a broad range of investment products, with a focus on building enduring relationships. The Company's subsidiaries also continually review their respective product and service offering and pricing to ensure competitiveness in the marketplace.

TABLE 27: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2019 DEC. 31	2018 DEC. 31
IGM Financial Inc.		
IG Wealth Management	**10.3 %**	9.2 %
Mackenzie	**15.6 %**	17.1 %
Counsel	**19.3 %**	19.2 %

The Company strives to deliver strong investment performance on its products relative to benchmarks and peers. Poor investment performance relative to benchmarks or peers could reduce the level of assets under management and sales and asset retention, as well as adversely impact our brands. Meaningful and/or sustained underperformance could affect the Company's results. The Company's objective is to cultivate investment processes and disciplines that provide it with a competitive advantage, and does so by diversifying its assets under management and product shelf by investment team, brand, asset class, mandate, style and geographic region.

BUSINESS/CLIENT RELATIONSHIPS

Business/Client relationships risk refers to the risk potential for unfavourable impacts on IGM Financial resulting from changes to other key relationships. These relationships primarily include IG Wealth Management clients and Consultants, Mackenzie retail distribution, strategic and significant business partners, clients of Mackenzie funds, and sub-advisors and other product suppliers.

IG Wealth Management Consultant network – IG Wealth Management derives all of its mutual fund sales through its Consultant network. IG Wealth Management Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on IG Wealth Management's results of operations and business prospects. IG Wealth Management is focused on strengthening its distribution network of Consultants and on responding to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice, as discussed in the IG Wealth Management Review of the Business section of this MD&A.

Mackenzie – Mackenzie derives the majority of its mutual fund sales through third party financial advisors. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

PEOPLE RISK

People risk refers to the potential inability to attract or retain key employees or Consultants, develop to an appropriate level of proficiency, or manage personnel succession or transition.

Management, investment and distribution personnel play an important role in developing, implementing, managing and distributing products and services offered by IGM Financial. The loss of these individuals or an inability to attract, retain and motivate sufficient numbers of qualified personnel could affect IGM Financial's business and financial performance.

6) ENVIRONMENTAL AND SOCIAL RISK

Environmental and social risk is the potential risk of financial loss or harm resulting from environmental or social issues arising from our business operations or investment activities. Environmental and social risks are identified as one of the six categories of risks within the Company's ERM Framework.

Environmental risks include issues such as climate change, biodiversity, pollution, waste, and the unsustainable use of energy, water and other resources. Social risks include issues such as human rights, labour standards, diversity and inclusion, and community impacts.

IGM Financial has a long-standing commitment to responsible management, as articulated in the Company's Corporate Responsibility Statement approved by the Board of Directors. The Board's risk management oversight includes ensuring that material environmental and social risks are appropriately identified, managed and monitored.

The Company's executive Risk Management Committee is responsible for providing oversight of the risk management process. Other management committees provide oversight of specific risks including the Corporate Responsibility Committee. The Corporate Responsibility Committee is comprised of senior executives of the Company who are responsible for ensuring implementation of policy and strategy, establishing goals and initiatives, measuring progress, and approving annual reporting for environmental, social and governance matters.

Our commitment to responsible management is demonstrated through various mechanisms – including our Code of Conduct for our employees, contractors, and directors; our Supplier Code of Conduct for the firms that do business with us; our Respectful Workplace Policy; our Diversity Policy; our Environmental Policy; and other related policies.

IG Wealth Management and Mackenzie Investments are signatories to the Principles for Responsible Investment (PRI). IG Wealth Management sub-advisors were also required to be signatories to the PRI by the end of 2019. Under the PRI, investors formally commit to incorporate environmental, social and governance issues into their investment decision making and active ownership processes. In addition, IG Wealth Management, Mackenzie Investments and Investment Planning Counsel have implemented Responsible Investment Policies outlining the practices at each company.

IGM Financial also reports annually on its environmental, social and governance management and performance in its Corporate Responsibility Report available on our website. The information in these reports does not form a part of this document.

CLIMATE CHANGE

We believe that financial services companies have an important role to play in addressing climate change. Global practices are continually evolving relating to the identification, analysis, and management of climate risks and opportunities

IGM Financial is a long-standing participant in the CDP (formerly Carbon Disclosure Project), which promotes corporate disclosures on greenhouse gas emissions and climate change management including setting and monitoring emission reduction targets. For the 2018 and 2019 surveys, IGM Financial was the only Canadian firm recognized by CDP as a corporate leader in climate change disclosure with a position on their Climate Change A List.

The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) was established in response to investor demand for enhanced information on climate-related risks and opportunities. IGM Financial and its operating companies support the TCFD recommendations which include a framework for consistent, voluntary climate-related financial disclosures that provide decision-useful information to investors and other stakeholders.

THE FINANCIAL SERVICES ENVIRONMENT

Canadians held $4.4 trillion in discretionary financial assets with financial institutions at December 31, 2018 based on the most recent report from Investor Economics. The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Approximately 65% ($2.9 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the $1.5 trillion held outside of a financial advisory relationship, approximately 63% consisted of bank deposits.

Financial advisors represent the primary distribution channel for the Company's products and services, and the core emphasis of the Company's business model is to support these financial advisors as they work with clients to plan for and achieve their financial goals. Multiple sources of emerging research show significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. The Company actively promotes the value of financial advice and the importance of a relationship with an advisor to develop and remain focused on long-term financial plans and goals.

Approximately 40% of Canadian discretionary financial assets or $1.8 trillion resided in investment funds at December 31, 2018, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 77% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With $162 billion in investment fund assets under management at December 31, 2019, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Competition and technology have fostered a trend towards financial service providers offering a comprehensive range of proprietary products and services. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent sales forces have become obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf. Accordingly, the Canadian financial services industry is characterized by a number of large, diversified, vertically-integrated participants, similar to IGM Financial, who offer both financial planning and investment management services.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 46% of total industry long-term mutual fund assets at December 31, 2019.

The Canadian mutual fund industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 73% of industry long-term mutual fund assets and 73% of total mutual fund assets under management at December 31, 2019. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

Management believes that the financial services industry will continue to be influenced by the following trends:

- Shifting demographics as the number of Canadians in their prime savings and retirement years continue to increase.
- Changes in investor attitudes based on economic conditions.
- Continued importance of the role of the financial advisor.
- Public policy related to retirement savings.
- Changes in the regulatory environment.
- An evolving competitive landscape.
- Advancing and changing technology.

THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. IG Wealth Management and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. IG Wealth Management, Mackenzie and Investment Planning Counsel compete directly with other investment managers for assets under management, and their products compete with stocks, bonds and other asset classes for a share of the investment assets of Canadians.

Competition from other financial service providers, alternative product types or delivery channels, and changes in regulations or public preferences could impact the characteristics of product and service offerings of the Company, including pricing, product

structures, dealer and advisor compensation and disclosure. The Company monitors developments on an ongoing basis, and engages in policy discussions and develops product and service responses as appropriate.

IGM Financial continues to focus on its commitment to provide quality investment advice and financial products, service innovations, effective management of the Company and long-term value for its clients and shareholders. Management believes that the Company is well-positioned to meet competitive challenges and capitalize on future opportunities.

The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on those channels emphasizing comprehensive financial planning through a relationship with a financial advisor.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Benefits of being part of the Power Financial group of companies.

BROAD AND DIVERSIFIED DISTRIBUTION

IGM Financial's distribution strength is a competitive advantage. In addition to owning two of Canada's largest financial planning organizations, IG Wealth Management and Investment Planning Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 independent financial advisors. Mackenzie also, in its growing strategic alliance business, partners with Canadian and U.S. manufacturing and distribution complexes to provide investment management to a number of retail investment fund mandates.

BROAD PRODUCT CAPABILITIES

IGM Financial's subsidiaries continue to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

ENDURING RELATIONSHIPS

IGM Financial enjoys significant advantages as a result of the enduring relationships that advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

BENEFITS OF BEING PART OF THE POWER FINANCIAL GROUP OF COMPANIES

As part of the Power Financial group of companies, IGM Financial benefits through expense savings from shared service arrangements, as well as through access to distribution, products and capital.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements and accompanying notes. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the financial services industry; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 2 of the Consolidated Financial Statements.

Critical accounting estimates relate to the fair value of financial instruments, goodwill and intangibles, income taxes, capitalized sales commissions, provisions and employee benefits.

The major critical accounting estimates are summarized below:

- *Fair value of financial instruments* – The Company's financial instruments are carried at fair value, except for loans, deposits and certificates, obligations to securitization entities, and long-term debt which are all carried at amortized cost. The fair value of publicly traded financial instruments is determined using published market prices. The fair value of financial instruments where published market prices are not available, including derivatives related to the Company's securitized loans, are determined using various valuation models which maximize the use of observable market inputs where available. Valuation methodologies and assumptions used in valuation models are reviewed on an ongoing basis. Changes in these assumptions or valuation methodologies could result in significant changes in net earnings.
- *Goodwill and intangible assets* – Goodwill, indefinite life intangible assets, and definite life intangible assets are reflected in Note 11 of the Consolidated Financial Statements. The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

  These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing the recoverable amounts, valuation approaches are used that include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes, discount rates, and capitalization multiples.

  The Company completed its annual impairment tests of goodwill and indefinite life intangible assets as at April 1, 2019, and determined there was no impairment in the value of those assets.
- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Earnings. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of deferred tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the deferred tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results in this MD&A and in Note 15 to the Consolidated Financial Statements.
- *Capitalized sales commissions* – Commissions paid directly by the client on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. The Company regularly reviews the carrying value of capitalized sales commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the capitalized sales commission asset in relation to its carrying value. At December 31, 2019, there were no indications of impairment to capitalized sales commissions.

- *Provisions* – A provision is recognized when there is a present obligation as a result of a past transaction or event, it is "probable" that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. In determining the best estimate for a provision, a single estimate, a weighted average of all possible outcomes, or the midpoint where there is a range of equally possible outcomes are all considered. A significant change in assessment of the likelihood or the best estimate may result in additional adjustments to net earnings.
- *Employee benefits* – The Company maintains a number of employee benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans for certain executive officers (SERPs) and an unfunded post-employment health care and life insurance plan for eligible retirees. The funded registered defined benefit pension plan provides pensions based on length of service and final average earnings. The measurement date for the Company's defined benefit pension plan assets and for the accrued benefit obligations on all defined benefit plans is December 31.

  Due to the long-term nature of these plans, the calculation of the accrued benefit liability depends on various assumptions including discount rates, rates of return on assets, the level and types of benefits provided, healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. All other assumptions are determined by management and reviewed by independent actuaries who calculate the pension and other future benefits expenses and accrued benefit obligations. Actual experience that differs from the actuarial assumptions will result in actuarial gains or losses as well as changes in benefits expense. The Company records actuarial gains and losses on all of its defined benefit plans in Other comprehensive income.

  During 2019, the performance of the defined benefit pension plan assets was positively impacted by market conditions. Corporate bond yields decreased in 2019 thereby impacting the discount rate used to measure the Company's accrued benefit liability. The discount rate utilized to value the defined benefit pension plan accrued benefit liability at December 31, 2019 was 3.20% compared to 3.90% at December 31, 2018. Pension plan assets increased to $466.5 million at December 31, 2019 from $407.4 million at December 31, 2018. The increase in plan assets was due to market performance of $62.4 million comprised of interest income of $16.1 million calculated based on the discount rate, which was recorded as a reduction to the pension expense, and actuarial gains of $46.3 million, which were recorded in Other comprehensive income. The assets in the Company's registered defined benefit pension plan also increased due to the Company contributing $26.4 million (2018 - $40.4 million) to the pension plan. The decrease in the discount rate utilized to value the defined benefit pension plan obligation resulted in actuarial losses of $62.0 million which were recorded in Other comprehensive income. Demographic assumptions and experience adjustments were revised which resulted in net actuarial gains of $0.9 million. The total defined benefit pension plan obligation was $565.6 million at December 31, 2019 compared to $496.7 million at December 31, 2018. As a result of these changes, the defined benefit pension plan had an accrued benefit liability of $99.1 million at December 31, 2019 compared to $89.3 million at the end of 2018. The unfunded SERPs and other post-retirement benefits plans had an accrued benefit liability of $69.2 million and $39.1 million, respectively, at December 31, 2019 compared to $62.1 million and $37.7 million in 2018.

  A decrease of 0.25% in the discount rate utilized in 2019 would result in a change of $27.3 million in the accrued pension obligation, $25.5 million in other comprehensive income, and $1.8 million in pension expense. Additional information regarding the Company's accounting and sensitivities related to pensions and other post-retirement benefits is included in Notes 2 and 14 of the Consolidated Financial Statements.

CHANGES IN ACCOUNTING POLICIES

IFRS 16 LEASES (IFRS 16)

As of January 1, 2019, the Company adopted IFRS 16 using the modified retrospective method with no restatement of comparative financial information. Under this approach, the Company recognized a lease liability of $105.5 million equal to the present value of the remaining lease payments discounted using the Company's incremental borrowing rate at January 1, 2019. The weighted average discount rate applied was 4.4%. A right-of-use asset of $96.1 million representing the Company's property leases was also recognized at its carrying amount as if IFRS 16 had been applied since each lease commencement date, net of the accumulated amortization that would have been recognized up to January 1, 2019. The difference between the right-of-use asset and the lease liability of $9.4 million was recognized as an adjustment to retained earnings as at January 1, 2019. The following practical expedients were applied on transition:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

- Accounted for leases for which the remaining lease term ends within 12 months of the date of initial application as a short-term lease.
- Relied on its assessment of whether leases are onerous applying IAS 37, Provisions, Contingent Liabilities and Contingent Assets, immediately before the date of initial application as an alternative to performing an impairment review.

Amortization expense increased due to the amortization of the right-of-use asset and interest expense increased due to the imputed interest on the lease liability; however total expenses are not noticeably different due to the offsetting decrease to operating lease expense.

Table 28 details the impact of IFRS 16 on the Consolidated Balance Sheet as at January 1, 2019.

FUTURE ACCOUNTING CHANGES

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

The IASB is currently undertaking a number of projects which will result in changes to existing IFRS standards that may affect the Company. Updates will be provided as the projects develop.

TABLE 28: IMPACT OF IFRS 16 ON BALANCE SHEET

($ millions)	DECEMBER 31, 2018	ADJUSTMENT DUE TO ADOPTION OF IFRS 16	JANUARY 1, 2019
Assets			
Other assets[1]	$ 46.5	$ (0.1)	$ 46.4
Capital assets	138.6	96.1	234.7
		$ 96.0	
Liabilities			
Accounts payable and accrued liabilities [1]	$ 397.4	$ (1.9)	$ 395.5
Lease obligations	–	105.5	105.5
Deferred income taxes	295.7	(2.0)	293.7
Retained earnings	2,840.6	(5.6)	2,835.0
		$ 96.0	

(1) Write-off of free rent inducement on capitalized leases.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures are designed to provide reasonable assurance that (a) material information relating to the Company is made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared, and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluations as of December 31, 2019, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting.

All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Effective November 18, 2019, IGM Financial entered into an outsourcing agreement with CIBC Mellon to assume most of IGM Financial's fund services functions. This will add fund administration servicing solutions to the custody and related services that CIBC Mellon already performs for IGM Financial. As a result of the outsourcing, substantially all of IGM Financial's employees in the outsourced functions were hired by CIBC Mellon and continued performing the same functions during the remainder of the fourth quarter. Contractually, CIBC Mellon is required to develop and implement internal controls and has agreed to work with IGM Financial to implement compliance measures to satisfy CSA National Instrument 52-109. CIBC Mellon has agreed to make minimal changes to processes and systems through year end 2019. Accordingly, management has concluded that this outsourcing has not materially affected the Company's internal controls in 2019. As the transition proceeds over the coming months and years, management will continually reassess its impact on the Company's internal control over financial reporting.

The Company's management, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the Internal Control - Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. The Company transitioned to the COSO 2013 Framework during 2014. Based on their evaluations as of December 31, 2019, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Notwithstanding the above, during the fourth quarter of 2019, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

TRANSACTIONS WITH RELATED PARTIES

IGM Financial enters into transactions with Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), which are all subsidiaries of its affiliate, Lifeco, which is a subsidiary of Power Financial Corporation. Effective as of January 1, 2020, Great-West, London Life and Canada Life, amalgamated into a single company, The Canada Life Assurance Company. These transactions are in the normal course of operations and have been recorded at fair value:

- During 2019 and 2018, the Company provided to and received from Great-West certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise.
- The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received $54.8 million in distribution fees (2018 - $62.6 million). The Company received $17.1 million (2018 - $17.5 million) and paid $26.2 million (2018 - $25.4 million) to Great-West and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid $78.8 million (2018 – $78.3 million) to London Life related to the distribution of certain mutual funds of the Company.
- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2019, the Company sold residential mortgage loans to Great-West and London Life for $10.8 million compared to $61.4 million in 2018.

After obtaining advanced tax rulings in October 2017, the Company agreed to tax loss consolidation transactions with the Power Corporation of Canada group whereby shares of a subsidiary that has generated tax losses may be acquired in each year up to and including 2020. The acquisitions are expected to close in the fourth quarter of each year. The Company will recognize the benefit of the tax losses realized throughout the year. On each of December 31, 2019 and December 31, 2018, the Company acquired shares of such loss companies and recorded the benefit of the tax losses acquired.

For further information on transactions involving related parties, see Notes 8 and 26 to the Company's Consolidated Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2019 totalled 238,294,090. Outstanding stock options as at December 31, 2019 totalled 10,529,360, of which 5,470,178 were exercisable. As at February 11, 2020, outstanding common shares totalled 238,300,145 and outstanding stock options totalled 10,514,061 of which 5,464,123 were exercisable.

SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.

Page intentionally left blank.

CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report		88
Consolidated Statements of Earnings		90
Consolidated Statements of Comprehensive Income		91
Consolidated Balance Sheets		92
Consolidated Statements of Changes in Shareholders' Equity		93
Consolidated Statements of Cash Flows		94
Notes to Consolidated Financial Statements		**95**
Note 1	Corporate information	95
Note 2	Summary of significant accounting policies	95
Note 3	Non-commission expense	101
Note 4	Other investments	101
Note 5	Loans	102
Note 6	Securitizations	102
Note 7	Other assets	103
Note 8	Investment in associates	104
Note 9	Capital assets	106
Note 10	Capitalized sales commissions	106
Note 11	Goodwill and intangible assets	107
Note 12	Deposits and certificates	108
Note 13	Other liabilities	108
Note 14	Employee benefits	109
Note 15	Income taxes	112
Note 16	Long-term debt	113
Note 17	Share capital	114
Note 18	Capital management	115
Note 19	Share-based payments	115
Note 20	Accumulated other comprehensive income (loss)	117
Note 21	Risk management	118
Note 22	Derivative financial instruments	122
Note 23	Fair value of financial instruments	122
Note 24	Earnings per common share	125
Note 25	Contingent liabilities and guarantees	126
Note 26	Related party transactions	126
Note 27	Segmented information	127

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of IGM Financial Inc.

OPINION

We have audited the consolidated financial statements of IGM Financial Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Dalziel.

Signed,
Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
February 14, 2020

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31 *(in thousands of Canadian dollars, except per share amounts)*	2019	2018
Revenues		
Management fees	$ 2,267,960	$ 2,239,182
Administration fees	414,457	427,093
Distribution fees	368,036	370,906
Net investment income and other	76,928	61,928
Proportionate share of associates' earnings *(Note 8)*	105,225	149,962
	3,232,606	3,249,071
Expenses		
Commission	1,101,165	1,098,643
Non–commission *(Note 3)*	1,054,389	1,043,482
Interest *(Note 16 and 27)*	108,386	120,859
	2,263,940	2,262,984
Earnings before income taxes	968,666	986,087
Income taxes *(Note 15)*	219,719	209,919
Net earnings	748,947	776,168
Perpetual preferred share dividends	2,213	8,850
Net earnings available to common shareholders	$ 746,734	$ 767,318
Earnings per share *(in dollars) (Note 24)*		
– Basic	$ 3.12	$ 3.19
– Diluted	$ 3.12	$ 3.18

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31 *(in thousands of Canadian dollars)*	2019	2018
Net earnings	$ 748,947	$ 776,168
Other comprehensive income (loss), net of tax		
Items that will not be reclassified to Net earnings		
Fair value through other comprehensive income investments		
Other comprehensive income (loss), *net of tax of $(1,651) and $(2,835)*	10,597	18,166
Employee benefits		
Net actuarial gains (losses), *net of tax of $6,243 and $6,117*	(16,895)	(16,523)
Investment in associates - employee benefits and other		
Other comprehensive income (loss), *net of tax of nil*	(19,129)	5,035
Items that may be reclassified subsequently to Net earnings		
Investment in associates and other		
Other comprehensive income (loss), *net of tax of $3,448 and $(412)*	(35,009)	18,637
	(60,436)	25,315
Total comprehensive income	$ 688,511	$ 801,483

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31 *(in thousands of Canadian dollars)*	2019	2018
Assets		
Cash and cash equivalents	$ 720,005	$ 650,228
Other investments *(Note 4)*	357,362	459,911
Client funds on deposit	561,269	546,787
Accounts and other receivables	394,210	319,609
Income taxes recoverable	11,925	9,316
Loans *(Note 5)*	7,198,043	7,738,031
Derivative financial instruments *(Note 22)*	15,204	16,364
Other assets *(Note 7)*	45,843	46,531
Investment in associates *(Note 8)*	1,753,882	1,651,304
Capital assets *(Note 9)*	216,956	138,647
Capitalized sales commissions *(Note 10)*	149,866	105,044
Deferred income taxes *(Note 15)*	76,517	75,607
Intangible assets *(Note 11)*	1,230,127	1,191,068
Goodwill *(Note 11)*	2,660,267	2,660,267
	$ 15,391,476	$ 15,608,714
Liabilities		
Accounts payable and accrued liabilities	$ 434,957	$ 397,379
Income taxes payable	4,867	51,894
Derivative financial instruments *(Note 22)*	17,193	28,990
Deposits and certificates *(Note 12)*	584,331	568,799
Other liabilities *(Note 13)*	441,902	444,173
Obligations to securitization entities *(Note 6)*	6,913,636	7,370,193
Lease obligations	90,446	–
Deferred income taxes *(Note 15)*	305,049	295,719
Long–term debt *(Note 16)*	2,100,000	1,850,000
	10,892,381	11,007,147
Shareholders' Equity		
Share capital		
Perpetual preferred shares	–	150,000
Common shares	1,597,860	1,611,263
Contributed surplus	48,677	45,536
Retained earnings	2,980,260	2,840,566
Accumulated other comprehensive income (loss)	(127,702)	(45,798)
	4,499,095	4,601,567
	$ 15,391,476	$ 15,608,714

These financial statements were approved and authorized for issuance by the Board of Directors on February 14, 2020.

Signed,
Jeffrey R. Carney
Director

Signed,
John McCallum
Director

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)	SHARE CAPITAL: PERPETUAL PREFERRED SHARES (Note 17)	SHARE CAPITAL: COMMON SHARES (Note 17)	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 20)	TOTAL SHAREHOLDERS' EQUITY
2019						
Balance, beginning of year						
As previously reported	$ 150,000	$ 1,611,263	$ 45,536	$ 2,840,566	$ (45,798)	$ 4,601,567
Change in accounting policy *(Note 2)*						
IFRS 16	–	–	–	(5,568)	–	(5,568)
As restated	150,000	1,611,263	45,536	2,834,998	(45,798)	4,595,999
Net earnings	–	–	–	748,947	–	748,947
Other comprehensive income (loss), net of tax	–	–	–	–	(60,436)	(60,436)
Total comprehensive income	–	–	–	748,947	(60,436)	688,511
Redemption of preferred shares	(150,000)	–	–	–	–	(150,000)
Common shares						
Issued under stock option plan	–	5,111	–	–	–	5,111
Purchased for cancellation	–	(18,514)	–	–	–	(18,514)
Stock options						
Current period expense	–	–	3,406	–	–	3,406
Exercised	–	–	(265)	–	–	(265)
Perpetual preferred share dividends	–	–	–	(2,213)	–	(2,213)
Common share dividends	–	–	–	(537,588)	–	(537,588)
Transfer out of fair value through other comprehensive income	–	–	–	21,468	(21,468)	–
Common share cancellation excess and other	–	–	–	(85,352)	–	(85,352)
Balance, end of year	$ –	$ 1,597,860	$ 48,677	$ 2,980,260	$ (127,702)	$ 4,499,095
2018						
Balance, beginning of year	$ 150,000	$ 1,602,726	$ 42,633	$ 2,620,797	$ (71,113)	$ 4,345,043
Net earnings	–	–	–	776,168	–	776,168
Other comprehensive income (loss), net of tax	–	–	–	–	25,315	25,315
Total comprehensive income	–	–	–	776,168	25,315	801,483
Common shares						
Issued under stock option plan	–	8,537	–	–	–	8,537
Stock options						
Current period expense	–	–	3,687	–	–	3,687
Exercised	–	–	(784)	–	–	(784)
Perpetual preferred share dividends	–	–	–	(8,850)	–	(8,850)
Common share dividends	–	–	–	(541,883)	–	(541,883)
Other	–	–	–	(5,666)	–	(5,666)
Balance, end of year	$ 150,000	$ 1,611,263	$ 45,536	$ 2,840,566	$ (45,798)	$ 4,601,567

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31 *(in thousands of Canadian dollars)*	2019	2018
Operating activities		
Earnings before income taxes	$ 968,666	$ 986,087
Income taxes paid	(236,676)	(132,611)
Adjustments to determine net cash from operating activities		
Capitalized sales commission amortization	22,387	14,462
Capitalized sales commissions paid	(67,209)	(55,685)
Amortization of capital, intangible and other assets	79,496	56,065
Proportionate share of associates' earnings, net of dividends received	(32,251)	(77,190)
Pension and other post–employment benefits	(4,810)	(18,428)
Restructuring provisions and other	–	22,758
Changes in operating assets and liabilities and other	9,316	51,626
Cash from operating activites before restructuring provision payments	738,919	847,084
Restructuring provision cash payments	(26,853)	(61,931)
	712,066	785,153
Financing activities		
Net decrease in deposits and certificates	(2,472)	(1,248)
Increase in obligations to securitization entities	1,456,265	1,771,735
Repayments of obligations to securitization entities and other	(1,960,757)	(2,034,429)
Repayment of lease obligations	(23,370)	–
Issue of debentures	250,000	200,000
Repayment of debentures	–	(525,000)
Redemption of preferred shares	(150,000)	–
Issue of common shares	4,846	7,753
Common shares purchased for cancellation	(99,963)	–
Perpetual preferred share dividends paid	(4,425)	(8,850)
Common share dividends paid	(539,046)	(541,759)
	(1,068,922)	(1,131,798)
Investing activities		
Purchase of other investments	(118,917)	(154,463)
Proceeds from the sale of other investments	85,462	93,498
Increase in loans	(1,682,079)	(1,748,387)
Repayment of loans and other	2,211,504	1,895,648
Net additions to capital assets	(18,813)	(7,117)
Net cash used in additions to intangible assets and acquisitions	(64,121)	(49,149)
Investment in Personal Capital Corporation	(66,811)	–
Proceeds from substantial issuer bid (Note 8)	80,408	–
	426,633	30,030
Increase (decrease) in cash and cash equivalents	69,777	(316,615)
Cash and cash equivalents, beginning of year	650,228	966,843
Cash and cash equivalents, end of year	$ 720,005	$ 650,228
Cash	$ 67,986	$ 81,799
Cash equivalents	652,019	568,429
	$ 720,005	$ 650,228
Supplemental disclosure of cash flow information related to operating activities		
Interest and dividends received	$ 301,738	$ 296,793
Interest paid	$ 271,914	$ 290,510

(See accompanying notes to consolidated financial statements.)

NOTE 1 CORPORATE INFORMATION

IGM Financial Inc. (the Company) is a publicly listed company (TSX: IGM), incorporated and domiciled in Canada. The registered address of the Company is 447 Portage Avenue, Winnipeg, Manitoba, Canada. The Company is controlled by Power Financial Corporation.

IGM Financial Inc. is a wealth and asset management company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market. The Company's wholly-owned principal subsidiaries are Investors Group Inc. and Mackenzie Financial Corporation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The policies set out below were consistently applied to all the periods presented unless otherwise noted.

USE OF JUDGMENT, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements. The key areas where judgment has been applied include: the determination of which financial assets should be derecognized; the assessment of the appropriate classification of financial instruments, including those classified as fair value through profit or loss; and the assessment that significant influence exists for its investment in associates. Key components of the financial statements requiring management to make estimates include: the fair value of financial instruments, goodwill, intangible assets, income taxes, capitalized sales commissions, provisions and employee benefits. Actual results may differ from such estimates. Further detail of judgments and estimates are found in the remainder of Note 2 and in Notes 6, 8, 10, 11, 13, 14, 15 and 23.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power to direct the relevant activities of the entity.

The Company's investments in Great-West Lifeco Inc. (Lifeco), China Asset Management Co., Ltd. (China AMC) and Personal Capital Corporation (Personal Capital) are accounted for using the equity method. The investments were initially recorded at cost and the carrying amounts are increased or decreased to recognize the Company's share of the investments' comprehensive income (loss) and the dividends received since the date of acquisition.

CHANGES IN ACCOUNTING POLICIES

***IFRS 16 Leases* (IFRS 16)**

As of January 1, 2019, the Company adopted IFRS 16 using the modified retrospective method with no restatement of comparative financial information. Under this approach, the Company recognized a lease liability of $105.5 million equal to the present value of the remaining lease payments discounted using the Company's incremental borrowing rate at January 1, 2019. The weighted average discount rate applied was 4.4%. A right-of-use asset of $96.1 million representing the Company's property leases was also recognized at its carrying amount as if IFRS 16 had been applied since each lease commencement date, net of the accumulated amortization that would have been recognized up to January 1, 2019. The difference between the right-of-use asset and the lease liability of

CHANGES IN ACCOUNTING POLICIES *(continued)*

IFRS 16 Leases (IFRS 16) *(continued)*

$9.4 million ($5.6 million after-tax and other adjustments) was recognized as an adjustment to retained earnings as at January 1, 2019. The following practical expedients were applied on transition:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Accounted for leases for which the remaining lease term ends within 12 months of the date of initial application as a short-term lease.
- Relied on its assessment of whether leases are onerous applying IAS 37, Provisions, Contingent Liabilities and Contingent Assets, immediately before the date of initial application as an alternative to performing an impairment review.

Amortization expense increased due to the amortization of the right-of-use asset and interest expense increased due to the imputed interest on the lease liability; however total expenses are not materially different due to the offsetting decrease to operating lease expense.

Impact of the changes in accounting policies on the Consolidated Balance Sheet:

	DECEMBER 31, 2018	ADJUSTMENT DUE TO ADOPTION OF IFRS 16	JANUARY 1, 2019
Assets			
Other assets[1]	$ 46,531	$ (61)	$ 46,470
Capital assets	138,647	96,065	234,712
		$ 96,004	
Liabilities & Shareholders' Equity			
Accounts payable and accrued liabilities[1]	$ 397,379	$ (1,958)	$ 395,421
Lease obligations	-	105,539	105,539
Deferred income taxes	295,719	(2,009)	293,710
Retained earnings	2,840,566	(5,568)	2,834,998
		$ 96,004	

(1) Write-off of free rent inducement on capitalized leases

REVENUE RECOGNITION

Management fees are based on the net asset value of investment fund or other assets under management and are accrued as the service is performed. Administration fees are also accrued as the service is performed. Distribution fees derived from investment fund and securities transactions are recognized on a trade date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis. Consideration is collected within a short period from the date of revenue recognition of the associated services. Aggregate receivables related to these services as at December 31, 2019 were $92.1 million (2018 - $66.0 million).

FINANCIAL INSTRUMENTS

All financial assets are initially recognized at fair value in the Consolidated Balance Sheets and are subsequently classified as measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI) or amortized cost based on the Company's assessment of the business model within which the financial asset is managed and the financial asset's contractual cash flow characteristics.

A financial asset is measured at amortized cost if it is held within a business model of holding financial assets and collecting contractual cash flows and those cash flows are comprised solely of payments of principal and interest. A financial asset is measured at FVTOCI if the financial asset is held within a business model of both collecting contractual cash flows and selling the financial assets or through an irrevocable election for equity instruments that are not held for trading. All other financial assets are measured at FVTPL. A financial asset that would otherwise be measured at amortized cost or FVTOCI can be designated as FVTPL through an irrevocable election if doing so eliminates or significantly reduces an accounting mismatch.

FINANCIAL INSTRUMENTS *(continued)*

Financial assets can only be reclassified when there is a change to the business model within which they are managed. Such reclassifications are applied on a prospective basis.

Financial liabilities are classified either as measured at amortized cost using the effective interest method or as FVTPL, which are recorded at fair value.

Unrealized gains and losses on financial assets classified as FVTOCI as well as other comprehensive income amounts, including unrealized foreign currency translation gains and losses related to the Company's investment in its associates, are recorded in the Consolidated Statements of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income forms part of Shareholders' equity.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities. Interest income is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Earnings.

OTHER INVESTMENTS

Other investments, which are recorded on a trade date basis, are classified as either FVTOCI or FVTPL.

The Company has elected to classify certain equity investments that are not held for trading as FVTOCI. Unrealized gains and losses on these FVTOCI investments are recorded in Other comprehensive income and transferred directly to retained earnings when realized without being recorded through profit or loss. Dividends declared are recorded in Net investment income and other in the Consolidated Statements of Earnings.

FVTPL investments are held for trading and are comprised of fixed income and equity investments and investments in proprietary investment funds. Unrealized and realized gains and losses, dividends declared, and interest income on these investments are recorded in Net investment income and other in the Consolidated Statements of Earnings.

LOANS

Loans are classified as either FVTPL or amortized cost, based on the Company's assessment of the business model within which the loan is managed.

Changes in fair value of loans measured at FVTPL are recorded in Net investment income and other in the Consolidated Statements of Earnings. Loans measured at amortized cost are recorded net of an allowance for expected credit losses. Interest income is accounted for on the accrual basis using the effective interest method for all loans and is recorded in Net investment income and other in the Consolidated Statements of Earnings.

The Company applies a three-stage impairment approach to measure expected credit losses on loans: 1) On origination, an allowance for 12-month expected credit losses is established, 2) Lifetime expected credit losses are recognized where there is a significant deterioration of credit quality, and 3) A loan is considered credit impaired when there is no longer reasonable assurance of collection.

DERECOGNITION

The Company enters into transactions where it transfers financial assets recognized on its balance sheet. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in Net investment income and other in the Consolidated Statements of Earnings. The transactions for financial assets that are not derecognized are accounted for as secured financing transactions.

SALES COMMISSIONS

Commissions are paid on investment product sales where the Company either receives a fee directly from the client or where it receives a fee directly from the investment fund.

SALES COMMISSIONS *(continued)*

Commissions paid on investment product sales where the Company receives a fee directly from the client are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years. The Company regularly reviews the carrying value of capitalized selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the capitalized selling commission asset in relation to its carrying value.

All other commissions paid on investment product sales are expensed as incurred.

CAPITAL ASSETS

Capital assets are comprised of Property and equipment and Right-of-use assets.

Property and equipment

Buildings, furnishings and equipment are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 17 years for equipment and furnishings and 10 to 50 years for the building and its components. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Right-of-use assets

A right-of-use asset representing the Company's property leases is depreciated using the straight-line method from the commencement date to the end of the lease term and is recorded in Non-commission expense.

LEASES

For contracts that contain a lease, the Company recognizes a right-of-use asset and a lease liability. Imputed interest on the lease liability is recorded in Interest expense.

Lease payments included in the measurement of the lease liability comprises fixed payments less any lease incentives receivable, variable payments that depend on an index or a rate, and payments or penalties for terminating the lease, if any. The lease payments are discounted using the Company's incremental borrowing rate, which is applied to portfolios of leases with reasonably similar characteristics.

The Company does not recognize a right-of-use asset or lease liability for leases that, at commencement date, have a lease term of 12 months or less, and leases for which the underlying asset is of low value. The Company recognizes the payments associated with these leases as an expense on a straight-line basis over the term of the lease.

GOODWILL AND INTANGIBLE ASSETS

The Company tests the carrying value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units).

Investment fund management contracts have been assessed to have an indefinite useful life as the contractual right to manage the assets has no fixed term.

Trade names have been assessed to have an indefinite useful life as they contribute to the revenues of the Company's integrated asset management business as a whole and the Company intends to utilize them for the foreseeable future.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Software assets are amortized over a period not exceeding 7 years and distribution and other management contracts are amortized over a period not exceeding 20 years. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

EMPLOYEE BENEFITS

The Company maintains a number of employee benefit plans including defined benefit plans and defined contribution pension plans for eligible employees. These plans are related parties in accordance with IFRS. The Company's defined benefit plans include a funded defined benefit pension plan for eligible employees, unfunded supplementary executive retirement plans (SERP) for certain executive officers, and an unfunded post-employment health care, dental and life insurance plan for eligible retirees.

The defined benefit pension plan provides pensions based on length of service and final average earnings.

The cost of the defined benefit plans is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of pension obligations. The Company's accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets. The Company determines the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.

Current service costs, past service costs and curtailment gains or losses are included in Non-commission expenses.

Remeasurements arising from defined benefit plans represent actuarial gains and losses and the actual return on plan assets, less interest calculated at the discount rate. Remeasurements are recognized immediately through Other comprehensive income (OCI) and are not reclassified to net earnings.

The accrued benefit liability represents the deficit related to defined benefit plans and is included in Other liabilities.

Payments to the defined contribution pension plans are expensed as incurred.

SHARE-BASED PAYMENTS

The Company uses the fair value based method to account for stock options granted to employees. The fair value of stock options is determined on each grant date. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in Contributed surplus. When stock options are exercised, the proceeds together with the amount recorded in Contributed surplus are added to Share capital.

The Company recognizes a liability for cash settled awards including those granted under the Performance Share Unit, Restricted Share Unit and Deferred Share Unit plans. Compensation expense is recognized over the vesting period, net of related hedges. The liability is remeasured at fair value at each reporting period.

PROVISIONS

A provision is recognized if, as a result of a past event, the Company has a present obligation where a reliable estimate can be made, and it is probable that an outflow of resources will be required to settle the obligation.

INCOME TAXES

The Company uses the liability method in accounting for income taxes whereby deferred income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases and tax loss carryforwards. Deferred income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

EARNINGS PER SHARE

Basic earnings per share is determined by dividing Net earnings available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury stock method.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are utilized by the Company in the management of equity price and interest rate risks. The Company does not utilize derivative financial instruments for speculative purposes.

The Company formally documents all hedging relationships, as well as its risk management objective and strategy for undertaking various hedging transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to anticipated future transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Derivative financial instruments are recorded at fair value in the Consolidated Balance Sheets.

Derivative financial instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness offset the changes in fair values or cash flows of hedged items. A hedge is designated either as a cash flow hedge or a fair value hedge. A cash flow hedge requires the change in fair value of the derivative, to the extent effective, to be recorded in Other comprehensive income, which is reclassified to the Consolidated Statements of Earnings when the hedged item affects earnings. The change in fair value of the ineffective portion of the derivative in a cash flow hedge is recorded in the Consolidated Statements of Earnings. A fair value hedge requires the change in fair value of the hedging derivative and the change in fair value of the hedged item relating to the hedged risk to both be recorded in the Consolidated Statements of Earnings.

The Company enters into interest rate swaps as part of its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. Swaps entered into to hedge the costs of funds on certain securitization activities are designated as hedging instruments (Note 21). The effective portion of changes in fair value are initially recorded in Other comprehensive income and subsequently recorded in Net investment income and other in the Consolidated Statements of Earnings over the term of the associated Obligations to securitization entities. Remaining mortgage related swaps are not designated as hedging instruments and changes in fair value are recorded directly in Net investment income and other in the Consolidated Statements of Earnings.

The Company also enters into total return swaps and forward agreements to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. Total return swap and forward agreements require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these derivatives are not designated as hedging instruments and changes in fair value are recorded in Non-commission expense in the Consolidated Statements of Earnings.

Derivatives continue to be utilized on a basis consistent with the risk management policies of the Company and are monitored by the Company for effectiveness as economic hedges even if specific hedge accounting requirements are not met.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount is presented on the Consolidated Balance Sheets when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

FUTURE ACCOUNTING CHANGES

The Company continuously monitors the potential changes proposed by the IASB and analyzes the effect that changes in the standards may have on the Company's operations.

NOTE 3 NON-COMMISSION EXPENSE

	2019	2018
Salaries and employee benefits	$ 517,796	$ 481,116
Restructuring and other	–	22,758
Occupancy	27,840	56,816
Amortization of capital, intangible and other assets	79,496	56,065
Other	429,257	426,727
	$ 1,054,389	$ 1,043,482

In 2018, the Company incurred restructuring and other charges of $22.7 million related to the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve the Company's offerings and operational effectiveness.

NOTE 4 OTHER INVESTMENTS

	2019		2018	
	COST	FAIR VALUE	COST	FAIR VALUE
Fair value through other comprehensive income (FVTOCI)				
Corporate investments	$ 244,989	$ 301,196	$ 303,619	$ 372,396
Fair value through profit or loss (FVTPL)				
Equity securities	1,575	1,759	16,976	12,915
Proprietary investment funds	51,304	54,407	78,504	74,600
	52,879	56,166	95,480	87,515
	$ 297,868	$ 357,362	$ 399,099	$ 459,911

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Corporate investments

Corporate investments is primarily comprised of the Company's investments in Wealthsimple Financial Corporation (Wealthsimple), and Portag3 Ventures LP and Portag3 Ventures II LP (Portag3). At December 31, 2018, investments also included Personal Capital Corporation (Personal Capital). In January 2019, the Company invested an additional amount of $66.8 million (USD $50.0 million) in Personal Capital which increased its voting interest to 22.7% and resulted in reclassification of the investment in Personal Capital from FVTOCI to the equity method (Note 8).

Wealthsimple is an online investment manager that provides financial investment guidance. Portag3 is an early-stage investment fund dedicated to backing innovating financial services companies. Wealthsimple and Portag3 are both controlled by the Company's parent, Power Financial Corporation.

In 2019, the Company invested $51.9 million related to Wealthsimple (2018 - $72.3 million) and $14.8 million related to Portag3 (2018 - $16.3 million).

FAIR VALUE THROUGH PROFIT OR LOSS

Proprietary investment funds

The Company manages and provides services and earns management and administration fees, in respect of investment funds that are not recognized in the Consolidated Balance Sheets. As at December 31, 2019, there were $161.8 billion in investment fund assets under management (2018 - $143.3 billion). The Company's investments in proprietary investment funds are classified on the Company's Consolidated Balance Sheets as fair value through profit or loss. These investments are generally made in the process of launching a new fund and are sold as third party investors subscribe. This balance represents the Company's maximum exposure to loss associated with these investments.

NOTE 4 OTHER INVESTMENTS *(continued)*

FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

Proprietary investment funds *(continued)*

Certain investment funds are consolidated where the Company has made the assessment that it controls the investment fund. As at December 31, 2019, the underlying investments related to these consolidated investment funds primarily consisted of cash and short-term investments of $7.1 million (2018 - $11.2 million), equity securities of $21.8 million (2018 - $33.8 million) and fixed income securities of $6.0 million (2018 – $3.0 million). The underlying securities of these funds are classified as FVTPL and recognized at fair value.

NOTE 5 LOANS

	CONTRACTUAL MATURITY				
	1 YEAR OR LESS	1 – 5 YEARS	OVER 5 YEARS	2019 TOTAL	2018 TOTAL
Amortized cost					
Residential mortgages	$ 1,524,491	$ 5,666,635	$ 7,592	$ 7,198,718	$ 7,734,529
Less: Allowance for expected credit losses				675	801
				7,198,043	7,733,728
Fair value through profit or loss				–	4,303
				$ 7,198,043	$ 7,738,031

The change in the allowance for expected credit losses is as follows:		
Balance, beginning of year	$ 801	$ 806
Write-offs, net of recoveries	(863)	(326)
Expected credit losses	737	321
Balance, end of year	$ 675	$ 801

Total credit impaired loans as at December 31, 2019 were $2,381 (2018 - $3,271).

Total interest income on loans was $218.3 million (2018 - $213.9 million). Total interest expense on obligations to securitization entities, related to securitized loans, was $171.9 million (2018 - $165.2 million). Gains realized on the sale of residential mortgages totalled $3.2 million (2018 - $1.5 million). Fair value adjustments related to mortgage banking operations totalled negative $4.3 million (2018 - negative $13.6 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including portfolio insurance, issue costs, and other items.

NOTE 6 SECURITIZATIONS

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as Obligations to securitization entities which are recorded at amortized cost.

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of $0.9 million at December 31, 2019 (2018 - positive $4.9 million).

NOTE 6 SECURITIZATIONS *(continued)*

Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, the Company has provided cash reserves for credit enhancement which are recorded at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to the Company's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

2019	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value			
NHA MBS and CMB Program	**$ 3,890,955**	**$ 3,938,732**	**$ (47,777)**
Bank sponsored ABCP	**2,938,910**	**2,974,904**	**(35,994)**
Total	**$ 6,829,865**	**$ 6,913,636**	**$ (83,771)**
Fair value	**$ 6,907,742**	**$ 6,996,953**	**$ (89,211)**
2018			
Carrying value			
NHA MBS and CMB Program	$ 4,246,668	$ 4,250,641	$ (3,973)
Bank sponsored ABCP	3,102,498	3,119,552	(17,054)
Total	$ 7,349,166	$ 7,370,193	$ (21,027)
Fair value	$ 7,405,170	$ 7,436,873	$ (31,703)

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

NOTE 7 OTHER ASSETS

	2019	2018
Deferred and prepaid expenses	**$ 44,673**	$ 45,461
Other	**1,170**	1,070
	$ 45,843	$ 46,531

Total other assets of $19.1 million as at December 31, 2019 (2018 - $18.9 million) are expected to be realized within one year.

NOTE 8 INVESTMENT IN ASSOCIATES

	LIFECO	CHINA AMC	PERSONAL CAPITAL	TOTAL
2019				
Balance, beginning of year	**$ 967,829**	**$ 683,475**	**$ –**	**$ 1,651,304**
Transfer from Corporate investments (FVTOCI)	**–**	**–**	**216,952**	**216,952**
Proceeds from substantial issuer bid	**(80,408)**	**–**	**–**	**(80,408)**
Dividends received	**(62,673)**	**(10,301)**	**–**	**(72,974)**
Proportionate share of:				
Earnings (losses)	**109,088**	**30,119**	**(16,782)**	**122,425**
Associate's one-time charges	**(17,200)**	**–**	**–**	**(17,200)**
Other comprehensive income (loss) and other adjustments	**(19,985)**	**(40,599)**	**(5,633)**	**(66,217)**
Balance, end of year	**$ 896,651**	**$ 662,694**	**$ 194,537**	**$ 1,753,882**
2018				
Balance, beginning of year	$ 901,405	$ 647,880	$ –	$ 1,549,285
Dividends received	(61,831)	(12,156)	–	(73,987)
Proportionate share of:				
Earnings	120,966	28,996	–	149,962
Other comprehensive income (loss) and other adjustments	7,289	18,755	–	26,044
Balance, end of year	$ 967,829	$ 683,475	$ –	$ 1,651,304

The Company uses the equity method to account for its investments in Great-West Lifeco Inc., China Asset Management Co., Ltd. and Personal Capital Corporation as it exercises significant influence.

GREAT-WEST LIFECO INC. (LIFECO)

Lifeco is a publicly listed company that is incorporated and domiciled in Canada and is controlled by Power Financial Corporation. Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States, Europe and Asia.

At December 31, 2019, the Company held 37,337,133 (2018 - 39,737,388) shares of Lifeco, which represented an equity interest of 4.0% (2018 - 4.0%). Significant influence arises from several factors, including but not limited to the following: common control of Lifeco by Power Financial Corporation, directors common to the boards of the Company and Lifeco, certain shared strategic alliances, significant intercompany transactions and service agreements that influence the financial and operating policies of both companies. The Company's proportionate share of Lifeco's earnings is recorded in the Consolidated Statements of Earnings.

In April 2019, the Company participated on a proportionate basis in the Lifeco substantial issuer bid by selling 2,400,255 of its shares in Lifeco for proceeds of $80.4 million.

In June 2019, Lifeco recorded a one-time loss in relation to the sale of substantially all of its United States individual life insurance and annuity business. In December 2019, Lifeco recorded one-time charges in relation to the revaluation of a deferred tax asset, restructuring costs and the net gain on the Scottish Friendly transaction. The Company's after-tax proportionate share of these charges was $17.2 million.

The fair value of the Company's investment in Lifeco totalled $1,241.8 million at December 31, 2019 (2018 - $1,118.6 million). The Company has elected to apply the exemption in IFRS 4 *Insurance Contracts* to retain Lifeco's relevant accounting policies related to Lifeco's deferral of the adoption of IFRS 9 *Financial Instruments*.

Lifeco directly owned 9,200,000 shares of the Company at December 31, 2019 (2018 – 9,200,000).

Lifeco's financial information as at December 31, 2019 can be obtained in its publicly available information.

CHINA ASSET MANAGEMENT CO., LTD. (CHINA AMC)

China AMC is an asset management company established in Beijing, China and is controlled by CITIC Securities Company Limited.

As at December 31, 2019, the Company held a 13.9% ownership interest in China AMC (2018 - 13.9%). Significant influence arises from board representation, participating in the policy making process, shared strategic initiatives including joint product launches and collaboration between management and investment teams.

The following table sets forth certain summary financial information from China AMC:

	2019		2018	
AS AT DECEMBER 31 *(millions)*	**CANADIAN DOLLARS**	**CHINESE YUAN**	CANADIAN DOLLARS	CHINESE YUAN
Total assets	**2,171**	**11,645**	2,051	10,342
Total liabilities	**504**	**2,701**	445	2,242
FOR THE YEAR ENDED DECEMBER 31				
Revenue	**763**	**3,977**	733	3,733
Net earnings available to common shareholders	**230**	**1,201**	224	1,140
Total comprehensive income	**234**	**1,219**	235	1,171

PERSONAL CAPITAL CORPORATION (PERSONAL CAPITAL)

In January 2019, the Company invested an additional amount of $66.8 million (USD $50.0 million) in Personal Capital which increased its voting interest to 22.7% and, combined with its board representation, resulted in the Company exercising significant influence.

As at December 31, 2019, the Company held a 24.8% equity interest in Personal Capital. IGM Financial's equity earnings from Personal Capital includes its proportionate share of Personal Capital's net loss adjusted by IGM Financial's amortization of intangible assets that it recognized as part of its investment in the company.

The following table sets forth certain summary financial information for Personal Capital:

	2019		2018	
AS AT DECEMBER 31 *(millions)*	**CANADIAN DOLLARS**	**US DOLLARS**	CANADIAN DOLLARS	US DOLLARS
Total assets	**85.9**	**66.1**	–	–
Total liabilities	**23.0**	**17.7**	–	–
FOR THE YEAR ENDED DECEMBER 31				
Revenue	**99.8**	**75.3**	–	–
Net loss available to common shareholders	**(56.4)**	**(42.5)**	–	–
Total comprehensive loss	**(56.4)**	**(42.5)**	–	–

NOTE 9 CAPITAL ASSETS

	FURNITURE AND EQUIPMENT	BUILDING AND COMPONENTS	RIGHT-OF-USE ASSETS	TOTAL
2019				
Cost	**$ 321,108**	**$ 66,817**	**$ 104,343**	**$ 492,268**
Less: accumulated amortization	**(236,809)**	**(15,016)**	**(23,487)**	**(275,312)**
	$ 84,299	**$ 51,801**	**$ 80,856**	**$ 216,956**
Changes in capital assets:				
Balance, beginning of year	**$ 88,185**	**$ 50,462**	**$ –**	**$ 138,647**
Adoption of IFRS 16	**–**	**–**	**96,065**	**96,065**
Additions	**16,679**	**2,841**	**8,278**	**27,798**
Disposals	**(893)**	**–**	**–**	**(893)**
Amortization	**(19,672)**	**(1,502)**	**(23,487)**	**(44,661)**
Balance, end of year	**$ 84,299**	**$ 51,801**	**$ 80,856**	**$ 216,956**
2018				
Cost	$ 306,416	$ 63,976	$ –	$ 370,392
Less: accumulated amortization	(218,231)	(13,514)	–	(231,745)
	$ 88,185	$ 50,462	$ –	$ 138,647
Changes in capital assets:				
Balance, beginning of year	$ 99,335	$ 52,186	$ –	$ 151,521
Additions	16,177	213	–	16,390
Disposals	(5,833)	(536)	–	(6,369)
Amortization	(21,494)	(1,401)	–	(22,895)
Balance, end of year	$ 88,185	$ 50,462	$ –	$ 138,647

NOTE 10 CAPITALIZED SALES COMMISSIONS

	2019	2018
Cost	**$ 192,504**	$ 125,264
Less: accumulated amortization	**(42,638)**	(20,220)
	$ 149,866	$ 105,044
Changes in capitalized sales commissions		
Balance, beginning of year	**$ 105,044**	$ 63,821
Changes due to:		
Sales of investment funds	**67,209**	55,685
Amortization	**(22,387)**	(14,462)
	44,822	41,223
Balance, end of year	**$ 149,866**	$ 105,044

NOTE 11 GOODWILL AND INTANGIBLE ASSETS

	FINITE LIFE		INDEFINITE LIFE			
	SOFTWARE	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL INTANGIBLE ASSETS	GOODWILL
2019						
Cost	**$ 256,365**	**$ 147,248**	**$ 740,559**	**$ 285,177**	**$ 1,429,349**	**$ 2,660,267**
Less: accumulated amortization	**(117,866)**	**(81,356)**	**–**	**–**	**(199,222)**	**–**
	$ 138,499	**$ 65,892**	**$ 740,559**	**$ 285,177**	**$ 1,230,127**	**$ 2,660,267**
Changes in goodwill and intangible assets:						
Balance, beginning of year	**$ 116,697**	**$ 48,635**	**$ 740,559**	**$ 285,177**	**$ 1,191,068**	**$ 2,660,267**
Additions	**44,421**	**25,457**	**–**	**–**	**69,878**	**–**
Disposals	**–**	**(1,726)**	**–**	**–**	**(1,726)**	**–**
Amortization	**(22,619)**	**(6,474)**	**–**	**–**	**(29,093)**	**–**
Balance, end of year	**$ 138,499**	**$ 65,892**	**$ 740,559**	**$ 285,177**	**$ 1,230,127**	**$ 2,660,267**
2018						
Cost	$ 212,006	$ 125,630	$ 740,559	$ 285,177	$ 1,363,372	$ 2,660,267
Less: accumulated amortization	(95,309)	(76,995)	–	–	(172,304)	–
	$ 116,697	$ 48,635	$ 740,559	$ 285,177	$ 1,191,068	$ 2,660,267
Changes in goodwill and intangible assets:						
Balance, beginning of year	$ 119,019	$ 39,696	$ 740,559	$ 285,177	$ 1,184,451	$ 2,660,267
Additions	18,940	16,366	–	–	35,306	–
Disposals	(216)	(1,877)	–	–	(2,093)	–
Amortization	(21,046)	(5,550)	–	–	(26,596)	–
Balance, end of year	$ 116,697	$ 48,635	$ 740,559	$ 285,177	$ 1,191,068	$ 2,660,267

The goodwill and indefinite life intangible assets consisting of investment fund management contracts and trade names are allocated to each cash generating unit (CGU) as summarized in the following table:

	2019		2018	
	GOODWILL	**INDEFINITE LIFE INTANGIBLE ASSETS**	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS
IG Wealth Management	**$ 1,347,781**	**$ –**	$ 1,347,781	$ –
Mackenzie	**1,168,580**	**1,002,681**	1,168,580	1,002,681
Other	**143,906**	**23,055**	143,906	23,055
Total	**$ 2,660,267**	**$ 1,025,736**	$ 2,660,267	$ 1,025,736

NOTE 11 GOODWILL AND INTANGIBLE ASSETS *(continued)*

The Company tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of the Company's CGUs is based on the best available evidence of fair value less costs of disposal. Fair value is initially assessed with reference to valuation multiples of comparable publicly-traded financial institutions and precedent business acquisition transactions. These valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 fair value inputs.

The fair value less costs of disposal of the Company's CGUs was compared with the carrying amount and it was determined there was no impairment. Changes in assumptions and estimates used in determining the recoverable amounts of CGUs can result in significant adjustments to the valuation of the CGUs.

NOTE 12 DEPOSITS AND CERTIFICATES

Deposits and certificates are classified as other financial liabilities measured at amortized cost.

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents, client funds on deposit and loans amounting to $584.3 million (2018 - $568.8 million) related to deposits and certificates.

		TERM TO MATURITY				
	DEMAND	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	2019 TOTAL	2018 TOTAL
Deposits	$ 572,974	$ 5,546	$ 3,607	$ 255	$ 582,382	$ 566,605
Certificates	-	454	630	865	1,949	2,194
	$ 572,974	$ 6,000	$ 4,237	$ 1,120	$ 584,331	$ 568,799

NOTE 13 OTHER LIABILITIES

	2019	2018
Dividends payable	$ 134,040	$ 137,710
Interest payable	30,127	27,527
Accrued benefit liabilities *(Note 14)*	207,441	189,113
Provisions	20,513	50,768
Other	49,781	39,055
	$ 441,902	$ 444,173

The Company establishes restructuring provisions related to business acquisitions, divestitures and other items, as well as other provisions in the normal course of its operations. Changes in provisions during 2019 consisted of additional estimates of $2.2 million, provision reversals of $3.3 million and payments of $29.2 million.

Total other liabilities of $221.5 million as at December 31, 2019 (2018 - $238.5 million) are expected to be settled within one year.

NOTE 14 EMPLOYEE BENEFITS

DEFINED BENEFIT PLANS

The Company maintains a number of employee pension and post-employment benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans (SERPs) for certain executive officers, and an unfunded post-employment health care, dental and life insurance plan for eligible retirees.

Effective July 1, 2012, the defined benefit pension plan was closed to new members. For all eligible employees hired after July 1, 2012, the Company has a registered defined contribution pension plan.

The defined benefit pension plan is a separate trust that is legally separated from the Company. The defined benefit pension plan is registered under the Pension Benefits Act of Manitoba (Act) and the Income Tax Act (ITA). As required by the Act, the defined benefit pension plan is governed by a pension committee which includes current and retired employees. The Pension Committee has certain responsibilities as described in the Act but may delegate certain activities to the Company. The ITA governs the employer's ability to make contributions and also has parameters that the plan must meet with respect to investments in foreign property.

The defined benefit pension plan provides lifetime pension benefits to all eligible employees based on length of service and final average earnings subject to limits established by the ITA. Death benefits are available on the death of an active member or a retired member.

Employees who are not senior officers are required to make annual contributions based on a percentage of salaries which are subject to a maximum amount.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2017, was completed in May 2018. The valuation determines the plan surplus or deficit on both a solvency and going concern basis. The solvency basis determines the relationship between the plan assets and its liabilities assuming that the plan is wound up and settled on the valuation date. A going concern valuation compares the relationship between the plan assets and the present value of the expected future benefit cash flows, assuming the plan will be maintained indefinitely. Based on the actuarial valuation, the registered pension plan had a solvency deficit of $47.2 million compared to $82.7 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2016. The decrease in the solvency deficit resulted primarily from higher assets due to contribution and investment returns, and is required to be funded over five years. The registered pension plan had a going concern surplus of $46.1 million compared to $24.4 million in the previous valuation. The next required actuarial valuation will be based on a measurement date of December 31, 2020. During 2019, the Company made contributions of $26.4 million (2018 - $40.4 million). The Company utilized $10.5 million of the payments made during 2018 to reduce its solvency deficit and increase its going concern surplus. The Company expects to make contributions of approximately $26.1 million in 2020. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

The SERPs are non-registered, non-contributory defined benefit plans which provide supplementary benefits to certain retired executives.

The other post-employment benefit plan is a non-contributory plan and provides eligible employees a reimbursement of medical costs or a fixed amount per year to cover medical costs during retirement.

The SERPs and other post-employment benefit plans are managed by the Company with oversight from the Board of Directors.

The defined benefit plans expose the Company to actuarial risks such as mortality risk which represents life expectancy and impacts the calculation of the obligations; interest rate risk which impacts the discount rate used to calculate the obligations and the actual return on plan assets; salary risk as estimated salary increases are used in the calculation of the obligations; and investment risk as the nature of the investments impact the actual return on the plan assets. The risks are managed by regular monitoring of the plans, applicable regulations and other factors that could impact the Company's expenses and cash flows.

DEFINED BENEFIT PLANS *(continued)*

Plan assets, benefit obligations and funded status:

	2019			2018		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	$ 407,428	$ –	$ –	$ 417,687	$ –	$ –
Employee contributions	2,316	–	–	2,464	–	–
Employer contributions	26,368	–	–	40,438	–	–
Benefits paid	(32,014)	–	–	(35,411)	–	–
Interest income	16,065	–	–	15,246	–	–
Remeasurements:						
- Return on plan assets	46,384	–	–	(32,996)	–	–
Balance, end of year	466,547	–	–	407,428	–	–
Accrued benefit obligation						
Balance, beginning of year	496,715	62,084	37,742	493,610	63,134	45,405
Benefits paid	(32,014)	(3,308)	(2,266)	(35,411)	(2,873)	(2,373)
Current service cost	18,540	1,462	539	20,293	1,400	918
Curtailment (gain) loss	–	–	–	(776)	–	36
Employee contributions	2,316	–	–	2,464	–	–
Interest expense	19,048	2,265	1,337	17,403	2,153	1,521
Remeasurements:						
Actuarial losses (gains)						
- Demographic assumption	–	–	–	17,397	–	(5,708)
- Experience adjustments	(970)	1,934	(648)	(3,098)	(12)	(787)
- Financial assumptions	61,971	4,798	2,443	(15,167)	(1,718)	(1,270)
Balance, end of year	565,606	69,235	39,147	496,715	62,084	37,742
Accrued benefit liability	$ 99,059	$ 69,235	$ 39,147	$ 89,287	$ 62,084	$ 37,742

Significant actuarial assumptions used to calculate the defined benefit obligation:

	2019			2018		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Discount rate	3.20%	2.95%-3.10%	3.05%	3.90%	3.55%-3.80%	3.70%
Rate of compensation increase	3.90%	3.75%	N/A	4.30%	3.75%	N/A
Health care cost trend rate [1]	N/A	N/A	4.00%	N/A	N/A	5.78%
Mortality rates at age 65 for current pensioners	23.6 years	23.6 years	23.6 years	23.6 years	23.6 years	23.6 years

(1) Trending to 4.00% in 2044 and remaining at that rate thereafter.

DEFINED BENEFIT PLANS *(continued)*

The weighted average duration of the pension plan's defined benefit obligation at the end of the reporting period is 19.1 years (2018 - 18.3 years).

Benefit expense:

	2019			2018		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Current service cost	$ 18,540	$ 1,462	$ 539	$ 20,293	$ 1,400	$ 918
Curtailment (gain) loss	–	–	–	(776)	–	36
Net interest cost	2,983	2,265	1,337	2,157	2,153	1,521
	$ 21,523	$ 3,727	$ 1,876	$ 21,674	$ 3,553	$ 2,475

Sensitivity analysis:

The calculation of the accrued benefit liability and the related benefit expense are sensitive to the significant actuarial assumptions. The following table presents the sensitivity analysis:

	2019		2018	
	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE
Defined benefit pension plan				
Discount rate (+ / - 0.25%)				
Increase	$ (25,523)	$ (1,782)	$ (21,322)	$ (1,719)
Decrease	27,313	1,815	22,784	1,743
Rate of compensation (+ / - 0.25%)				
Increase	9,676	812	7,245	720
Decrease	(9,555)	(806)	(7,198)	(707)
Mortality				
Increase 1 year	12,476	686	9,725	705
SERPs				
Discount rate (+ / - 0.25%)				
Increase	(1,825)	52	(1,640)	52
Decrease	1,908	(56)	1,713	(57)
Rate of compensation (+ / - 0.25%)				
Increase	79	23	75	22
Decrease	(78)	(22)	(74)	(24)
Mortality				
Increase 1 year	1,681	58	1,418	57
Other post-employment benefits				
Discount rate (+ / - 0.25%)				
Increase	(982)	43	(902)	36
Decrease	1,028	(46)	940	(39)
Health care cost trend rates (+ / - 1.00%)				
Increase	1,372	39	1,180	44
Decrease	(1,183)	(35)	(1,027)	(38)
Mortality				
Increase 1 year	1,180	44	987	45

NOTE 14 EMPLOYEE BENEFITS *(continued)*

DEFINED BENEFIT PLANS *(continued)*

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in certain assumptions may be correlated.

Asset allocation of defined benefit pension plan by asset category:

	2019	2018
Equity securities	**59.2 %**	56.4 %
Fixed income securities	**30.3**	32.5
Alternative strategies	**9.4**	9.9
Cash and cash equivalents	**1.1**	1.2
	100.0 %	100.0 %

The defined benefit pension plan adheres to its Statement of Investment Policies and Procedures which includes investment objectives, asset allocation guidelines and investment limits by asset class. The defined benefit pension plan assets are invested in proprietary investment funds with the exception of cash on deposit with Schedule I Canadian chartered banks.

DEFINED CONTRIBUTION PENSION PLANS

The Company maintains a number of defined contribution pension plans for eligible employees. The total expense recorded in Non-commission expense was $5.5 million (2018 - $4.8 million).

GROUP RETIREMENT SAVINGS PLAN (RSP)

The Company maintains a group RSP for eligible employees. The Company's contributions are recorded in Non-commission expense as paid and totalled $6.9 million (2018 - $6.7 million).

NOTE 15 INCOME TAXES

Income tax expense:

	2019	2018
Income taxes recognized in net earnings		
Current taxes		
Tax on current year's earnings	**$ 200,736**	$ 223,924
Adjustments in respect of prior years	**513**	(9,317)
	201,249	214,607
Deferred taxes	**18,470**	(4,688)
	$ 219,719	$ 209,919

Effective income tax rate:

	2019	2018
Income taxes at Canadian federal and provincial statutory rates	**26.77 %**	26.81 %
Effect of:		
Proportionate share of associates' earnings *(Note 8)*	**(3.31)**	(3.79)
Proportionate share of associate's one-time charges *(Note 8)*	**0.48**	–
Tax loss consolidation *(Note 26)*	**(1.41)**	(1.40)
Other items	**0.15**	(0.33)
Effective income tax rate	**22.68 %**	21.29 %

NOTE 15 INCOME TAXES *(continued)*

DEFERRED INCOME TAXES

Sources of deferred income taxes:

	2019	2018
Deferred income tax assets		
Accrued benefit liabilities	$ 55,994	$ 51,025
Loss carryforwards	33,700	33,165
Other	38,483	38,726
	128,177	122,916
Deferred income tax liabilities		
Capitalized sales commissions *(Note 2)*	40,006	28,254
Intangible assets	268,734	265,343
Other	47,969	49,431
	356,709	343,028
	$ 228,532	$ 220,112

Deferred income tax assets and liabilities are presented on the Consolidated Balance Sheets as follows:

	2019	2018
Deferred income tax assets	$ 76,517	$ 75,607
Deferred income tax liabilities	305,049	295,719
	$ 228,532	$ 220,112

As at December 31, 2019, the Company had non-capital losses of $10.0 million (2018 - $4.6 million) available to reduce future taxable income, the benefit of which had not been recognized. $9.2 million of the losses can be carried forward indefinitely and the remainder expire on December 31, 2037.

NOTE 16 LONG-TERM DEBT

MATURITY	RATE	2019	2018
January 26, 2027	3.44%	400,000	400,000
December 13, 2027	6.65%	125,000	125,000
May 9, 2031	7.45%	150,000	150,000
December 31, 2032	7.00%	175,000	175,000
March 7, 2033	7.11%	150,000	150,000
December 10, 2040	6.00%	200,000	200,000
January 25, 2047	4.56%	200,000	200,000
December 9, 2047	4.115%	250,000	250,000
July 13, 2048	4.174%	200,000	200,000
March 21, 2050	4.206%	250,000	-
		$ 2,100,000	$ 1,850,000

NOTE 16 LONG-TERM DEBT *(continued)*

Long-term debt consists of unsecured debentures which are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon yields at the time of redemption.

Long-term debt is classified as other financial liabilities and is recorded at amortized cost.

Interest expense relating to long-term debt was $104.3 million (2018 - $120.9 million).

On March 20, 2019, the Company issued $250.0 million 4.206% debentures maturing March 21, 2050. The net proceeds were used by the Company to fund the redemption of $150.0 million of its issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B and for general corporate purposes. The Company redeemed the Series B Preferred Shares on April 30, 2019.

On March 7, 2018, the $150.0 million 6.58% debentures were due and were repaid.

On July 11, 2018, the Company issued $200.0 million of 4.174% debentures maturing July 13, 2048. On August 10, 2018, the net proceeds were used by the Company, together with a portion of IGM Financial's existing internal cash resources, to fund the early redemption of all of its $375 million aggregate principal amount of 7.35% debentures due April 8, 2019. A premium of $10.7 million was paid on the early redemption of the 7.35% debentures and is included in interest expense in the Consolidated Statements of Earnings.

NOTE 17 SHARE CAPITAL

AUTHORIZED

Unlimited number of:

- First preferred shares, issuable in series
- Second preferred shares, issuable in series
- Class 1 non-voting shares
- Common shares, no par value

ISSUED AND OUTSTANDING

	2019		2018	
	SHARES	**STATED VALUE**	SHARES	STATED VALUE
Perpetual preferred shares - classified as equity:				
First preferred shares, Series B	**–**	**$ –**	6,000,000	$ 150,000
Common shares:				
Balance, beginning of year	**240,885,317**	**$ 1,611,263**	240,666,131	$ 1,602,726
Issued under Stock Option Plan *(Note 19)*	**171,561**	**5,111**	219,186	8,537
Purchased for cancellation	**(2,762,788)**	**(18,514)**	–	–
Balance, end of year	**238,294,090**	**$ 1,597,860**	240,885,317	$ 1,611,263

PERPETUAL PREFERRED SHARES

The Company redeemed the First preferred shares, Series B for $150.0 million on April 30, 2019.

NORMAL COURSE ISSUER BID

The Company commenced a normal course issuer bid on March 26, 2019 which is effective until the earlier of March 25, 2020 and the date on which the Company has purchased the maximum number of common shares permitted under the normal course issuer bid. Pursuant to this bid, the Company may purchase up to 4.0 million or 1.7% of its common shares outstanding as at March 14, 2019. The Company's previous normal course issuer bid expired on March 19, 2018.

NOTE 17 SHARE CAPITAL *(continued)*

NORMAL COURSE ISSUER BID *(continued)*

In 2019, there were 2,762,788 shares (2018 – nil) purchased at a cost of $100.0 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

In connection with its normal course issuer bid, the Company established an automatic securities purchase plan for its common shares. The automatic securities purchase plan provides standard instructions regarding how the Company's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

NOTE 18 CAPITAL MANAGEMENT

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt and common shareholders' equity. At December 31, 2018, Capital also included perpetual preferred shares which were redeemed in April 2019. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was $2,100.0 million at December 31, 2019, compared to $1,850.0 million at December 31, 2018. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants. The net increase in long-term debt resulted from the issuance on March 20, 2019 of $250.0 million 4.206% debentures maturing March 21, 2050.

The net proceeds from the issuance of the debenture was used by the Company in part to fund the redemption of $150 million 5.90% Non-Cumulative First Preferred Shares, Series B and for general corporate purposes. The Company redeemed the Series B Preferred Shares on April 30, 2019.

The Company purchased 2,762,788 common shares during the year ended December 31, 2019 at a cost of $100.0 million under its normal course issuer bid (Note 17). Other activities in 2019 included the declaration of perpetual preferred share dividends of $2.2 million or $0.36875 per share and common share dividends of $537.6 million or $2.25 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

NOTE 19 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted average trading price per common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time vesting conditions set out at the grant date. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date. At December 31, 2019, 20,415,351 (2018 - 20,586,912) common shares were reserved for issuance under the Plan.

STOCK OPTION PLAN *(continued)*

During 2019, the Company granted 1,511,540 options to employees (2018 - 1,336,990). The weighted-average fair value of options granted during the year ended December 31, 2019 has been estimated at $1.82 per option (2018 - $2.56) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was $34.35 (2018 - $39.10). The assumptions used in these valuation models include:

	2019	2018
Exercise price	$ 34.34	$ 39.28
Risk-free interest rate	2.07%	2.35%
Expected option life	7 years	6 years
Expected volatility	18.00%	17.00%
Expected dividend yield	6.55%	5.73%

Expected volatility has been estimated based on the historic volatility of the Company's share price over seven years which is reflective of the expected option life. Stock options were exercised regularly throughout 2019 and the average share price in 2019 was $36.22.

The Company recorded compensation expense related to its stock option program of $3.4 million (2018 - $3.7 million).

	2019		2018	
	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance, beginning of year	9,701,894	$ 42.27	8,912,748	$ 42.59
Granted	1,511,540	34.34	1,336,990	39.28
Exercised	(171,561)	28.25	(219,186)	35.37
Forfeited	(512,513)	45.20	(328,658)	43.53
Balance, end of year	10,529,360	$ 41.22	9,701,894	$ 42.27
Exercisable, end of year	5,470,178	$ 43.99	4,742,050	$ 44.28

OPTIONS OUTSTANDING AT DECEMBER 31, 2019	EXPIRY DATE	EXERCISE PRICE $	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2020	40.45 - 42.82	559,351	559,351
	2021	42.49 - 46.72	426,531	426,531
	2022	45.56 - 47.23	659,948	659,948
	2023	44.73 - 47.26	999,590	887,348
	2024	53.81	763,700	683,950
	2025	43.28 - 43.97	1,090,690	725,413
	2026	34.88 - 38.17	1,939,899	833,563
	2027	39.71 - 41.74	1,292,707	428,035
	2028	37.58 - 40.10	1,319,699	266,039
	2029	34.29 - 36.91	1,477,245	–
			10,529,360	5,470,178

SHARE UNIT PLANS

The Company has share unit plans for eligible employees to assist in retaining and further aligning the interests of senior management with those of the shareholders. These plans include Performance Share Unit (PSU), Deferred Share Unit (DSU) and Restricted Share Unit (RSU) plans. Under the terms of the plans, share units are awarded annually and are subject to time vesting conditions. In addition, the PSU and DSU plans are subject to performance vesting conditions. The value of each share unit is based on the share price of the Company's common shares. The PSUs and RSUs are cash settled and vest over a three year period. Certain employees can elect at the time of grant to receive a portion of their PSUs in the form of deferred share units which vest over a three year period. Deferred share units are redeemable when a participant is no longer an employee of the Company or any of its affiliates by a lump sum payment

NOTE 19 SHARE-BASED PAYMENTS *(continued)*

SHARE UNIT PLANS *(continued)*

based on the value of the deferred share unit at that time. Additional share units are issued in respect of dividends payable on common shares based on a value of the share unit at the dividend payment date. The Company recorded compensation expense, excluding the impact of hedging, of $17.0 million in 2019 (2018 - $6.8 million) and a liability of $26.5 million at December 31, 2019 (2018 - $20.4 million).

SHARE PURCHASE PLANS

Under the Company's share purchase plans, eligible employees and IG Wealth Management consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of 3 years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled $10.0 million (2018 - $12.4 million).

DIRECTORS' DEFERRED SHARE UNIT PLAN

The Company has a Deferred Share Unit (DSU) plan for the directors of the Company to promote a greater alignment of interests between directors and shareholders of the Company. Under the terms of the plan, directors are required to receive 50% of their annual board retainer in the form of DSUs and may elect to receive the balance of their annual board retainer in cash or DSUs. Directors may elect to receive certain fees in a combination of DSUs and cash. The number of DSUs granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (value of DSU). A director who has elected to receive DSUs will receive additional DSUs in respect of dividends payable on common shares, based on the value of a DSU at the dividend payment date. DSUs are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by cash payments, based on the value of the DSUs at that time. At December 31, 2019, the fair value of the DSUs outstanding was $18.6 million (2018 - $13.4 million). Any difference between the change in fair value of the DSUs and the change in fair value of the total return swap, which is an economic hedge for the DSU plan, is recognized in Non-commission expense in the period in which the change occurs.

NOTE 20 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

2019	EMPLOYEE BENEFITS	OTHER INVESTMENTS	INVESTMENT IN ASSOCIATES AND OTHER	TOTAL
Balance, beginning of year	**$ (149,052)**	**$ 57,234**	**$ 46,020**	**$ (45,798)**
Other comprehensive income (loss)	**(16,895)**	**10,597**	**(54,138)**	**(60,436)**
Transfer out of FVTOCI	**–**	**(21,468)**	**–**	**(21,468)**
Balance, end of year	**$ (165,947)**	**$ 46,363**	**$ (8,118)**	**$ (127,702)**
2018				
Balance, beginning of year	$ (132,529)	$ 39,068	$ 22,348	$ (71,113)
Other comprehensive income (loss)	(16,523)	18,166	23,672	25,315
Balance, end of year	$ (149,052)	$ 57,234	$ 46,020	$ (45,798)

Amounts are recorded net of tax.

NOTE 21 RISK MANAGEMENT

The Company actively manages its liquidity, credit and market risks.

LIQUIDITY AND FUNDING RISK RELATED TO FINANCIAL INSTRUMENTS

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

The Company's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and by the Financial Risk Management Committee, a committee of finance and other business leaders.

A key funding requirement for the Company is the funding of Consultant network compensation paid for the distribution of financial products and services. This compensation continues to be paid from operating cash flows.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements related to the mortgage banking operation. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

Certain subsidiaries of the Company are approved issuers of NHA MBS and are approved sellers into the CMB Program. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts.

The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

The Company's contractual maturities of certain financial liabilities were as follows:

AS AT DECEMBER 31, 2019 *($ millions)*	DEMAND	LESS THAN 1 YEAR	1 – 5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	$ –	$ 6.9	$ 10.1	$ 0.2	$ 17.2
Deposits and certificates	573.0	6.0	4.2	1.1	584.3
Obligations to securitization entities	–	1,473.6	5,431.5	8.5	6,913.6
Leases [(1)]		26.2	54.7	23.5	104.4
Long–term debt	–	–	–	2,100.0	2,100.0
Pension funding [(2)]	–	26.1	–	–	26.1
Total contractual maturities	$ 573.0	$ 1,538.8	$ 5,500.5	$ 2,133.3	$ 9,745.6

(1) Includes remaining lease payments related to office space and equipment used in the normal course of business.

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2020. Pension funding requirements beyond 2020 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

LIQUIDITY AND FUNDING RISK RELATED TO FINANCIAL INSTRUMENTS *(continued)*

In addition to the Company's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled $825 million at December 31, 2019, unchanged from December 31, 2018. The lines of credit at December 31, 2019 consisted of committed lines of $650 million and uncommitted lines of $175 million, unchanged from December 31, 2018. The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at December 31, 2019 and December 31, 2018, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2018.

CREDIT RISK RELATED TO FINANCIAL INSTRUMENTS

Credit risk is the potential for financial loss to the Company if a counterparty to a transaction fails to meet its obligations. The Company's cash and cash equivalents, other investment holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

At December 31, 2019, cash and cash equivalents of $720.0 million (2018 - $650.2 million) consisted of cash balances of $68.0 million (2018 - $81.8 million) on deposit with Canadian chartered banks and cash equivalents of $652.0 million (2018 - $568.4 million). Cash equivalents are comprised of Government of Canada treasury bills totalling $34.5 million (2018 - $103.5 million), provincial government treasury bills and promissory notes of $206.5 million (2018 - $76.2 million), bankers' acceptances and other short-term notes issued by Canadian chartered banks of $411.0 million (2018 - $364.3 million). Also included in 2018 were highly rated corporate commercial paper of $24.4 million. The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2019, residential mortgages, recorded on the Company's balance sheet, of $7.2 billion (2018 - $7.7 billion) consisted of $6.8 billion sold to securitization programs (2018 - $7.3 billion), $344.5 million held pending sale or securitization (2018 - $363.9 million) and $24.2 million related to the Company's intermediary operations (2018 - $25.6 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's IG Living Plan™.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling $3.9 billion (2018 - $4.2 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling $2.9 billion (2018 - $3.1 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were $71.9 million (2018 - $74.1 million) and $37.9 million (2018 - $35.6 million), respectively, at December 31, 2019. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 4.6% of mortgages held in ABCP Trusts insured at December 31, 2019 (2018 - 8.3%).

CREDIT RISK RELATED TO FINANCIAL INSTRUMENTS *(continued)*

At December 31, 2019, residential mortgages recorded on balance sheet were 59.1% insured (2018 - 61.5%). As at December 31, 2019, impaired mortgages on these portfolios were $2.4 million, compared to $3.3 million at December 31, 2018. Uninsured non-performing mortgages over 90 days on these portfolios were $1.6 million at December 31, 2019, compared to $1.8 million at December 31, 2018.

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

The Company regularly reviews the credit quality of the mortgages and the adequacy of the allowance for expected credit losses.

The Company's allowance for expected credit losses was $0.7 million at December 31, 2019, compared to $0.8 million at December 31, 2018, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2018.

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfil their obligations under these arrangements.

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of $15.7 million (2018 - $19.4 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was $0.7 million at December 31, 2019 (2018 - nil). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at December 31, 2019. Management of credit risk related to derivatives has not changed materially since December 31, 2018.

MARKET RISK RELATED TO FINANCIAL INSTRUMENTS

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices.

Interest Rate Risk

The Company is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking operations.

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of $0.9 million (2018 - positive $4.9 million) and an outstanding notional amount of $0.8 billion at December 31, 2019 (2018 - $0.9 billion). The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The

MARKET RISK RELATED TO FINANCIAL INSTRUMENTS *(continued)*

Interest Rate Risk *(continued)*

fair value of these swaps totalled negative $4.9 million (2018 – negative $11.0 million), on an outstanding notional amount of $1.6 billion at December 31, 2019 (2018 – $1.7 billion). The net fair value of these swaps of negative $5.8 million at December 31, 2019 (2018 – negative $6.1 million) is recorded on the balance sheet and has an outstanding notional amount of $2.4 billion (2018 - $2.6 billion).

- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. Beginning in 2018, hedge accounting is applied to the cost of funds on certain securitization activities. The effective portion of fair value changes of the associated interest rate swaps are initially recognized in Other comprehensive income and subsequently recognized in Net investment income and other over the term of the related Obligations to securitization entities. The fair value of these swaps was $0.6 million (2018 – negative $1.8 million) on an outstanding notional amount of $180.4 million at December 31, 2019 (2018 - $249.9 million).

As at December 31, 2019, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately $2.0 million (2018 - decrease of $0.5 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2018.

Equity Price Risk

The Company is exposed to equity price risk on its equity investments (Note 4) which are classified as either fair value through other comprehensive income or fair value through profit or loss. The fair value of the equity investments was $357.4 million at December 31, 2019 (2018 - $459.9 million).

The Company sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. The Company hedges its exposure to this risk through the use of forward agreements and total return swaps.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk on its investments in Personal Capital and China AMC. Changes to the carrying value due to changes in foreign exchange rates on these investments are recognized in Other comprehensive income. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investments by approximately $40.5 million ($44.8 million).

The Company's proportionate share of China AMC's and Personal Capital's earnings (losses), recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings, is also affected by changes in foreign exchange rates. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the proportionate share of associates' earnings (losses) by approximately $0.7 million ($0.6 million).

RISKS RELATED TO ASSETS UNDER MANAGEMENT

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings.

NOTE 22 DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative contracts which are either exchange-traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks or Canadian bank-sponsored securitization trusts that are counterparties to the Company's securitization transactions. In all cases, the derivative contracts are used for non-trading purposes. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Total return swaps are contractual agreements to exchange payments based on a specified notional amount and the underlying security for a specific period. Options are contractual agreements which convey the right, but not the obligation, to buy or sell specific financial instruments at a fixed price at a future date. Forward contracts are contractual agreements to buy or sell a financial instrument on a future date at a specified price.

Certain of the Company's derivative financial instruments are subject to master netting arrangements and are presented on a gross basis. The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position and recorded as assets on the Consolidated Balance Sheets. The total estimated fair value represents the total amount that the Company would receive or pay to terminate all agreements at each year end. However, this would not result in a gain or loss to the Company as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

The following table summarizes the Company's derivative financial instruments:

	NOTIONAL AMOUNT					FAIR VALUE	
2019	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	CREDIT RISK	ASSET	LIABILITY
Swaps							
Hedge accounting	**$ –**	**$ 59,559**	**$ 46,504**	**$ 106,063**	**$ 373**	**$ 373**	**$ 10**
No hedge accounting	**914,441**	**1,466,479**	**76,973**	**2,457,893**	**12,049**	**12,049**	**17,183**
Forward contracts							
Hedge accounting	**10,175**	**33,440**	**–**	**43,615**	**2,782**	**2,782**	**–**
	$ 924,616	**$ 1,559,478**	**$ 123,477**	**$ 2,607,571**	**$ 15,204**	**$ 15,204**	**$ 17,193**
2018							
Swaps							
Hedge accounting	$ –	$ 122,186	$ 42,650	$ 164,836	$ 1	$ 1	$ 1,158
No hedge accounting	907,525	1,736,413	36,737	2,680,675	16,034	16,034	23,252
Forward contracts							
Hedge accounting	10,310	26,985	–	37,295	329	329	4,580
	$ 917,835	$ 1,885,584	$ 79,387	$ 2,882,806	$ 16,364	$ 16,364	$ 28,990

The credit risk related to the Company's derivative financial instruments after giving effect to any netting agreements was $0.7 million (2018 - nil).

The credit risk related to the Company's derivative financial instruments after giving effect to netting agreements and including rights to future net interest income, was $0.7 million (2018 - nil). Rights to future net interest income are related to the Company's securitization activities and are not reflected on the Consolidated Balance Sheets.

NOTE 23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values are management's estimates and are calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and are matters of significant judgment.

All financial instruments measured at fair value and those for which fair value is disclosed are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 - Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

Markets are considered inactive when transactions are not occurring with sufficient regularity. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In those instances where traded markets are not considered sufficiently active, fair value is measured using valuation models which may utilize predominantly observable market inputs (Level 2) or may utilize predominantly non-observable market inputs (Level 3). Management considers all reasonably available information including indicative broker quotations, any available pricing for similar instruments, recent arm's length market transactions, any relevant observable market inputs, and internal model-based estimates. Management exercises judgment in determining the most appropriate inputs and the weighting ascribed to each input as well as in the selection of valuation methodologies.

Fair value is determined using the following methods and assumptions:

Other investments and other financial assets and financial liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.

Loans classified as Level 2 are valued using market interest rates for loans with similar credit risk and maturity.

Loans classified as Level 3 are valued by discounting the expected future cash flows at prevailing market yields.

Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is valued using quoted prices for each debenture available in the market.

Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

Level 1 financial instruments include exchange-traded equity investments and open-end investment fund units and other financial liabilities in instances where there are quoted prices available from active markets.

Level 2 assets and liabilities include fixed income securities, loans, derivative financial instruments, deposits and certificates and long-term debt. The fair value of fixed income securities is determined using quoted market prices or independent dealer price quotes. The fair value of derivative financial instruments and deposits and certificates are determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs. The fair value of long-term debt is determined using indicative broker quotes.

Level 3 assets and liabilities include investments with little or no trading activity valued using broker-dealer quotes, loans, other financial assets, obligations to securitization entities and derivative financial instruments. Derivative financial instruments consist of principal reinvestment account swaps which represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage

principal. Fair value is determined by discounting the projected cashflows of the swaps. The notional amount, which is an input used to determine the fair value of the swap, is determined using an average unobservable prepayment rate of 15% which is based on historical prepayment patterns. An increase (decrease) in the assumed mortgage prepayment rate increases (decreases) the notional amount of the swap.

The following table presents the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

		FAIR VALUE			
2019	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets recorded at fair value					
Other investments					
- FVTOCI	$ 301,196	$ –	$ –	$ 301,196	$ 301,196
- FVTPL	56,166	55,603	–	563	56,166
Loans					
- FVTPL	–	–	–	–	–
Derivative financial instruments	15,204	–	10,762	4,442	15,204
Financial assets recorded at amortized cost					
Loans					
- Amortized cost	7,198,043	–	366,020	6,907,743	7,273,763
Financial liabilities recorded at fair value					
Derivative financial instruments	17,193	–	11,845	5,348	17,193
Other financial liabilities	–	–	–	–	–
Financial liabilities recorded at amortized cost					
Deposits and certificates	584,331	–	584,662	–	584,662
Obligations to securitization entities	6,913,636	–	–	6,996,953	6,996,953
Long-term debt	2,100,000	–	2,453,564	–	2,453,564
2018					
Financial assets recorded at fair value					
Other investments					
- FVTOCI	$ 372,396	$ –	$ –	$ 372,396	$ 372,396
- FVTPL	87,515	86,963	–	552	87,515
Loans					
- FVTPL	4,303	–	4,303	–	4,303
Derivative financial instruments	16,364	–	7,179	9,185	16,364
Financial assets recorded at amortized cost					
Loans					
- Amortized cost	7,733,728	–	380,372	7,405,170	7,785,542
Financial liabilities recorded at fair value					
Derivative financial instruments	28,990	–	24,704	4,286	28,990
Other financial liabilities	8,237	8,235	2	–	8,237
Financial liabilities recorded at amortized cost					
Deposits and certificates	568,799	–	569,048	–	569,048
Obligations to securitization entities	7,370,193	–	–	7,436,873	7,436,873
Long-term debt	1,850,000	–	2,050,299	–	2,050,299

NOTE 23 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

There were no significant transfers between Level 1 and Level 2 in 2019 and 2018.

The following table provides a summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

2019	BALANCE JANUARY 1	GAINS/ (LOSSES) INCLUDED IN NET EARNINGS[1]	GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SETTLEMENTS	TRANSFERS IN/OUT	BALANCE DECEMBER 31
Other investments							
- FVTOCI	**$ 372,396**	**$ –**	**$ 12,248**	**$ 66,693**	**$ –**	**$(150,141)**	**$ 301,196**
- FVTPL	**552**	**11**	**–**	**–**	**–**	**–**	**563**
Derivative financial instruments, net	**4,899**	**(5,207)**	**–**	**(1,551)**	**(953)**	**–**	**(906)**
2018							
Other investments							
- FVTOCI	$ 262,825	$ –	$ 21,002	$ 88,569	$ –	$ –	$ 372,396
- FVTPL	661	(8)	–	–	–	(101)	552
Derivative financial instruments, net	4,095	(12,689)	–	224	(13,269)	–	4,899

(1) Included in Net investment income in the Consolidated Statements of Earnings.

NOTE 24 EARNINGS PER COMMON SHARE

	2019	2018
Earnings		
Net earnings	**$ 748,947**	$ 776,168
Perpetual preferred share dividends	**2,213**	8,850
Net earnings available to common shareholders	**$ 746,734**	$ 767,318
Number of common shares *(in thousands)*		
Weighted average number of common shares outstanding	**239,105**	240,815
Add: Potential exercise of outstanding stock options [1]	**76**	125
Average number of common shares outstanding - Diluted basis	**239,181**	240,940
Earnings per common share *(in dollars)*		
Basic	**$ 3.12**	$ 3.19
Diluted	**$ 3.12**	$ 3.18

(1) Excludes 1,591 thousand shares in 2019 related to outstanding stock options that were anti-dilutive (2018 - 1,453 thousand).

NOTE 25 CONTINGENT LIABILITIES AND GUARANTEES

CONTINGENT LIABILITIES

The Company is subject to legal actions arising in the normal course of its business. In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie Financial Corporation which alleges that the company should not have paid mutual fund trailing commissions to order execution only dealers. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

GUARANTEES

In the normal course of operations, the Company executes agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Company has also agreed to indemnify its directors and officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Company could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Company has not made any payments under such indemnification agreements. No provisions have been recognized related to these agreements.

NOTE 26 RELATED PARTY TRANSACTIONS

TRANSACTIONS AND BALANCES WITH RELATED ENTITIES

The Company enters into transactions with The Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), which are all subsidiaries of its affiliate, Lifeco, which is a subsidiary of Power Financial Corporation. Effective as of January 1, 2020, Great-West, London Life and Canada Life amalgamated into a single company, The Canada Life Assurance Company. These transactions are in the normal course of operations and have been recorded at fair value:

- During 2019 and 2018, the Company provided to and received from Great-West certain administrative services. The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received $54.8 million in distribution fees (2018 - $62.6 million). The Company received $17.1 million (2018 - $17.5 million) and paid $26.2 million (2018 - $25.4 million) to Great-West and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid $78.8 million (2018 - $78.3 million) to London Life related to the distribution of certain investment funds of the Company.
- During 2019, the Company sold residential mortgage loans to Great-West and London Life for $10.8 million (2018 - $61.4 million).

After obtaining advanced tax rulings in October 2017, the Company agreed to tax loss consolidation transactions with the Power Corporation of Canada group whereby shares of a subsidiary that has generated tax losses may be acquired in each year up to and including 2020. The acquisitions are expected to close in the fourth quarter of each year. The Company will recognize the benefit of the tax losses realized throughout the year. On each of December 31, 2019 and December 31, 2018, the Company acquired shares of such loss companies and recorded the benefit of the tax losses acquired.

NOTE 26 RELATED PARTY TRANSACTIONS *(continued)*

KEY MANAGEMENT COMPENSATION

The total compensation and other benefits to directors and employees classified as key management, being individuals having authority and responsibility for planning, directing and controlling the activities of the Company, are as follows:

	2019	2018
Compensation and employee benefits	$ 4,260	$ 4,200
Post-employment benefits	3,988	3,007
Share-based payments	2,023	1,638
	$ 10,271	$ 8,845

Share-based payments exclude the fair value remeasurement of the deferred share units associated with changes in the Company's share price (Note 19).

NOTE 27 SEGMENTED INFORMATION

The Company's reportable segments are:

- IG Wealth Management
- Mackenzie
- Corporate and Other

These segments reflect the Company's internal financial reporting and performance measurement. In the third quarter of 2018, the Company announced that it had rebranded Investors Group as IG Wealth Management.

IG Wealth Management earns fee-based revenues in the conduct of its core business activities which are primarily related to the distribution, management and administration of its investment funds. It also earns fee revenues from the provision of brokerage services and the distribution of insurance and banking products. In addition, IG Wealth Management earns intermediary revenues primarily from mortgage banking and servicing activities and from the assets funded by deposit and certificate products.

Mackenzie earns fee-based revenues from services it provides as fund manager to its investment funds and as investment advisor to sub-advisory and institutional accounts.

Corporate and Other includes Investment Planning Counsel, equity income from its investments in Lifeco, China AMC and Personal Capital (Note 8), net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

NOTE 27 SEGMENTED INFORMATION *(continued)*

2019

	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL SEGMENT	ADJUSTMENTS[1]	TOTAL
Revenues						
Management fees	$ 1,487,935	$ 703,538	$ 76,487	$ 2,267,960	$ –	$ 2,267,960
Administration fees	299,631	98,251	16,575	414,457	–	414,457
Distribution fees	171,164	5,746	191,126	368,036	–	368,036
Net investment income and other	56,248	4,236	16,444	76,928	–	76,928
Proportionate share of associates' earnings	–	–	122,425	122,425	(17,200)	105,225
	2,014,978	811,771	423,057	3,249,806	(17,200)	3,232,606
Expenses						
Commission	628,766	292,896	179,503	1,101,165	–	1,101,165
Non–commission	615,934	350,438	88,017	1,054,389	–	1,054,389
	1,244,700	643,334	267,520	2,155,554	–	2,155,554
Earnings before undernoted	$ 770,278	$ 168,437	$ 155,537	1,094,252	(17,200)	1,077,052
Interest expense[2]				(108,386)	–	(108,386)
Proportionate share of associate's one–time charges				(17,200)	17,200	–
Earnings before income taxes				968,666	–	968,666
Income taxes				219,719	–	219,719
Net earnings				748,947	–	748,947
Perpetual preferred share dividends				2,213	–	2,213
Net earnings available to common shareholders				$ 746,734	$ –	$ 746,734
Identifiable assets	$ 8,508,059	$ 1,140,237	$ 3,082,913	$12,731,209		
Goodwill	1,347,781	1,168,580	143,906	2,660,267		
Total assets	$ 9,855,840	$ 2,308,817	$ 3,226,819	$15,391,476		

(1) *Proportionate share of Associate's one time charges is not related to a specific segment and therefore excluded from segment results. These items have been added back to their respective revenue or expense line item to reconcile Total Segment results to the Company's Consolidated Statements of Earnings.*

(2) *Interest expense includes interest on long-term debt and, beginning January 1, 2019, includes interest on leases of $4.1 million as a result of the Company's adoption of IFRS 16, Leases.*

NOTE 27 SEGMENTED INFORMATION *(continued)*

2018

	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL SEGMENT	ADJUSTMENTS[1]	TOTAL
Revenues						
Management fees	$ 1,458,127	$ 701,424	$ 79,631	$ 2,239,182	$ –	$ 2,239,182
Administration fees	310,382	98,353	18,358	427,093	–	427,093
Distribution fees	171,531	6,713	192,662	370,906	–	370,906
Net investment income and other	46,665	(1,942)	17,205	61,928	–	61,928
Proportionate share of associates' earnings	–	–	149,962	149,962	–	149,962
	1,986,705	804,548	457,818	3,249,071	–	3,249,071
Expenses						
Commission	623,421	291,089	184,133	1,098,643	–	1,098,643
Non-commission	597,242	335,105	88,377	1,020,724	22,758	1,043,482
	1,220,663	626,194	272,510	2,119,367	22,758	2,142,125
Earnings before undernoted	$ 766,042	$ 178,354	$ 185,308	1,129,704	(22,758)	1,106,946
Interest expense				(110,179)	(10,680)	(120,859)
Premium paid on early redemption of debentures (Note 16)				(10,680)	10,680	–
Restructuring and other charges (Note 3)				(22,758)	22,758	–
Earnings before income taxes				986,087	–	986,087
Income taxes				209,919	–	209,919
Net earnings				776,168	–	776,168
Perpetual preferred share dividends				8,850	–	8,850
Net earnings available to common shareholders				$ 767,318	$ –	$ 767,318
Identifiable assets	$ 8,822,277	$ 1,153,639	$ 2,972,531	$ 12,948,447		
Goodwill	1,347,781	1,168,580	143,906	2,660,267		
Total assets	$ 10,170,058	$ 2,322,219	$ 3,116,437	$ 15,608,714		

(1) Premium paid on early redemption of debentures and Restructuring and other charges are not related to a specific segment and therefore excluded from segment results. These items have been added back to their respective revenue or expense line item to reconcile Total Segment results to the Company's Consolidated Statements of Earnings.

Page intentionally left blank.

Pargesa Holding SA

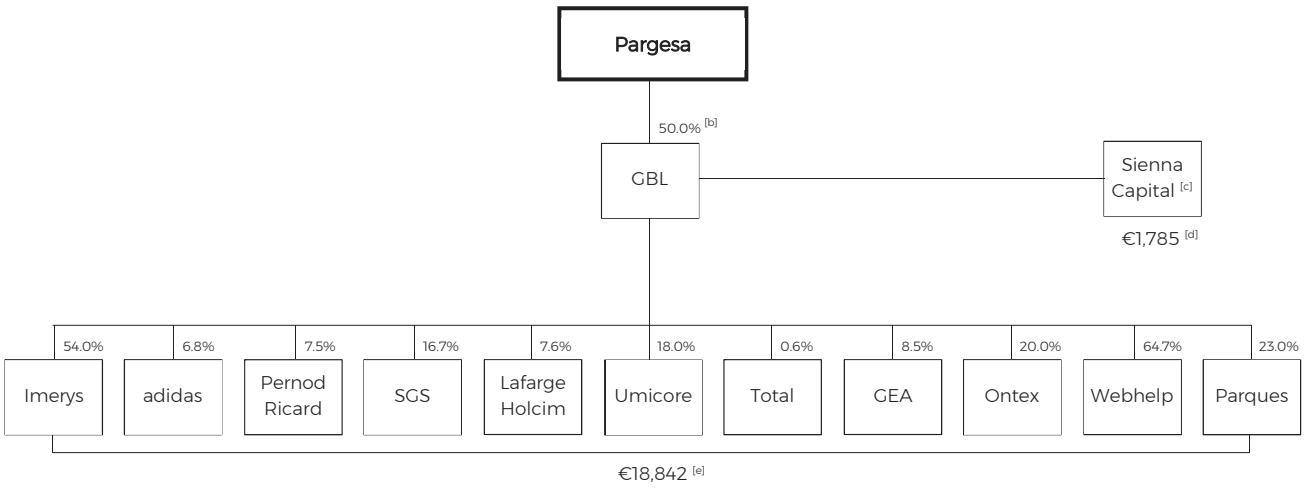
PART E

The attached document discloses information relating to the financial results of Pargesa Holding SA as issued by Pargesa Holding SA.

Pargesa Holding SA

Power Financial Corporation and the Frère Group of Charleroi, Belgium, each hold a 50.0% interest in Parjointco N.V., a Netherlands-based company that, at December 31, 2019, held a 55.5% interest in Pargesa Holding SA (Pargesa), the Pargesa group's parent company, representing 75.4% of the voting rights in the company. Pargesa has its head office in Geneva, Switzerland and its shares are listed on the Swiss Exchange (SIX: PARG). The Pargesa group holds interests in a limited number of large European companies.

The organization chart below reflects the group's structure at December 31, 2019 [a]:



[a] The chart shows the operating companies of the portfolio and Sienna Capital. The percentages represent the total interest percentage as defined in the glossary found on page 11.

[b] 51.7% of voting rights (and of economic interest), taking into account the suspended voting rights related to GBL treasury shares.

[c] Comprising shareholdings in alternative investment funds, valued at fair value.

[d] Estimated value[1] in millions of euros at December 31, 2019.

[e] Operating companies (listed investments and private assets) at December 31, 2019 at fair value[1], expressed in millions of euros.

Pargesa holds an interest in Groupe Bruxelles Lambert (GBL), a holding company whose head office is in Brussels, Belgium, and which is listed on the Euronext Exchange (EBR: GBLB). At December 31, 2019, GBL's portfolio was mainly comprised of investments in the following:

PUBLICLY LISTED

- Imerys (EPA: NK) – mineral-based specialty solutions for industry
- adidas (XETR: ADS) – design and distribution of sportswear
- Pernod Ricard (EPA: RI) – wines and spirits
- SGS (SIX: SGSN) – testing, inspection and certification
- LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete
- Umicore (EBR: UMI) – materials technology and recycling of precious metals
- Total (EPA: FP) – oil, gas and chemical industries
- GEA (XETR: G1A) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors
- Ontex (EBR: ONTEX) – disposable hygiene products

PRIVATELY HELD

- Webhelp – provider of customer experience and business process outsourcing
- Parques – operation of regional leisure parks

[1] In accordance with the valuation principles described in the definition of the net asset value in the glossary further in this report.

Key Financial Data[2]

[in millions of Swiss francs, except as otherwise noted] [unaudited]	December 31, 2019	December 31, 2018	Variation %
Consolidated net result (group share)	391	361	+8.3
Net asset value	10,946	8,973	+22.0
Market capitalization	6,814	6,001	+13.5
Net debt [a]	116	175	-33.7
Loan to value [b]	1.0%	1.9%	
Dividend per share	2.63 [c]	2.56	+2.7

[a] Pargesa's net debt (including 50% of GBL's net debt; the net debt amounts to SF532 million at the end of 2019, compared to SF566 million at the end of 2018 – see "Net asset value" section for details).

[b] The loan to value ratio is calculated on the basis of (i) Pargesa's direct net debt relative to (ii) Pargesa's portfolio value.

[c] Subject to approval at the Annual General Meeting on May 6, 2020.

Pargesa's consolidated net result (group share) increased by 8.3% for the year 2019 compared to 2018 and amounted to SF391 million. The increase in the contribution from non-consolidated shareholdings, from private equity and other investment funds as well as the positive variation in net financial income and expenses was partially offset by the decrease from Imerys' contribution and the Parques' negative contribution.

Highlights

- Listed investments:
  - In a favourable market context, GBL sold, in March and April 2019, 0.6% of Total's capital through forward sales. Sales were executed at an average spot price of €50.52 per share and at an average forward price of €48.37 per share. They were prepaid[3] in May 2019 for a total amount of €771 million. The capital gain generated by these sales amounted to €411 million at GBL's level and will not impact the consolidated net income in 2020, in accordance with IFRS 9. GBL continued to receive dividends on the disposed shares until the maturity date of the forward sales in January 2020.
  - GBL also seized this market window to sell 1% of adidas' capital for net proceeds of €499 million and a capital gain of €333 million which does not impact the income statement under IFRS 9. At the end of December 2019, the investment in adidas, being 6.8% of the capital, was valued at €3,951 million.
  - In 2019, GBL continued to reinforce its position in Umicore. At December 31, 2019, GBL held an 18.0% stake in Umicore (17.7% at the end of 2018), representing a market value of €1,922 million.
  - On September 6, 2019, GBL announced the completion of an offering by its subsidiary Eliott Capital of a €750 million bond exchangeable for existing LafargeHolcim shares guaranteed by GBL. This offering initially relates to approximately 13.2 million LafargeHolcim shares representing approximately 2.1% of the company's share capital and nearly 23% of the LafargeHolcim shares held by the issuer at the date of the offering. The bonds do not bear any interest and have a date of maturity of December 30, 2022, except in the event of early redemption. The bonds have been offered at an issue price of 101% of par and will be redeemed at par at maturity, which corresponds to an annual gross yield of -0.3%. The proceeds of the offering will be used for GBL's general corporate purposes.
  - GBL pursued the rebalancing of the investment portfolio by reducing its holding of LafargeHolcim by 1.7% of share capital for net proceeds of €499 million, thereby generating a capital gain of €106 million which does not impact the income statement in accordance with IFRS 9. At December 31, 2019, the investment in LafargeHolcim, being 7.6% of the capital, was worth €2,308 million.
  - GBL completed its share buyback program (announced in October 2018) of €250 million. On September 19, 2019, GBL's board of directors authorized the company to put in place a complementary share buyback program for up to €250 million of its own shares. This authorization is valid until 2021. Including the 2019 purchases by GBL, Pargesa's percentage of economic interest in GBL stands at 51.7% at December 31, 2019 against 50.8% at December 31, 2018.

[2] The alternative performance indicators are defined in the glossary found at the end of this report.

[3] The prepayment of the forward sales of Total shares does not impact GBL's net financial position until their maturity in January 2020.

- On February 4, 2020, GBL purchased €374 million of SGS shares by participating in a private placement by the Von Finck family at a price of SF2,425 per share. Following this investment, GBL increased its stake in the capital of SGS from 16.8% at the end of 2019 to 18.9%. On March 6, 2020, GBL's total investment in SGS was valued at €3,242 million.

- Private assets:
  - On April 26, 2019, Piolin Bidco, S.A.U. ("Piolin") announced its intention to launch a voluntary public takeover bid paid in cash for the shares of Parques. On July 24, 2019, the CNMV (Comisión Nacional del Mercado de Valores) authorized the offer, which began on July 26, 2019 and successfully closed on September 6, 2019. In line with their irrevocable commitment in the event of a successful offer, GBL and Corporación Financiera Alba ("Alba") brought their Parques shares to the offer. Upon completion of the offer, GBL indirectly held 23.3% of Parques (23.0% at the end of December 2019), alongside EQT AB and Alba. The delisting of Parques was completed in December 2019.
  - On August 2, 2019, following the entry into exclusive negotiations on July 9, 2019, GBL announced that it had concluded the contract for the acquisition of the Webhelp group through an investment vehicle controlled by GBL alongside the cofounding shareholders, Frédéric Jousset and Olivier Duha, and the management team. GBL invested €0.9 billion to hold 64.7% of the share capital of the acquiring investment vehicle, based on an enterprise value of €2.4 billion for Webhelp group. The cofounding shareholders and Webhelp's management team reinvested a significant portion of their shares alongside GBL and will indirectly hold the balance of the share capital of the acquiring holding company. Frédéric Jousset and Olivier Duha will remain in their roles as executive chairmen. The acquisition was completed on November 19, 2019.

- Sienna Capital:

  GBL continued to develop its platform of alternative investments, Sienna Capital. At the end of 2019, Sienna Capital's net asset value was €1,785 million, growing by 29.9% over the course of the year (€1,374 million at December 31, 2018). During 2019, GBL invested €465 million (€453 million in 2018) into Sienna Capital's alternative assets and ended the year with uncalled commitments of €466 million (€528 million at December 31, 2018).

  Sienna Capital's activity for the year ended December 31, 2019 developed as follows:

  - On September 13, 2019, GBL, through its subsidiary Sienna Capital, committed to co-invest approximately €100 million, alongside funds affiliated with the investment company Carlyle in connection with the acquisition of an approximately 37% stake (GBL's share as well as the share of the funds affiliated with the investment company Carlyle) in Compañía Española de Petróleos, S.A.U. ("Cepsa"). Headquartered in Spain, Cepsa is an integrated global player operating throughout the oil and gas value chain, generating sales of €22 billion in 2018. Sienna Capital made a commitment of approximately €50 million in the Carlyle International Energy Partners II fund, an investment vehicle specialized in the energy sector. In October 2019, Sienna Capital invested €88 million in the Cepsa transaction.
  - Ergon Capital

    Sienna Capital had committed €200 million to the Ergon Capital Partners IV fund when it launched in December 2017. The closing of the fund occurred at the end of March 2019 with total commitments reaching €581 million, exceeding the initial fundraising objective of €500 million.

    In the fourth quarter of 2019, Ergon Capital sold its stake in Looping, a leading operator of regionally anchored leisure parks in Europe, to its management team, in partnership with Mubadala Capital. This transaction generated a capital gain of €34 million (GBL share).

    During the fourth quarter of 2019, Ergon Capital sold opseo, the leading German ambulant care provider to the Ergon opseo Long Term Value Fund ("Ergon opseo LTVF"), the continuation fund managed by Ergon Capital Management and dedicated to the development of the opseo group. This transaction generated a capital gain of €88 million (GBL share). GBL, through its Sienna Capital subsidiary, committed to co-invest €45 million in Ergon opseo LTVF. At the end of 2019, Sienna Capital invested €38 million of its funding obligation.
  - Marcho Partners

    On July 16, 2019, Sienna Capital invested €150 million in Marcho Partners LLP, a London-based hedge fund specializing in innovation and technology.

- **Backed**

  During the fourth quarter of 2019, Sienna Capital committed €25 million in each of the funds Backed 2 and Backed Encore 1, launched by Backed, a venture capital fund specialized in the sector of new digital technologies. These additional commitments brought Sienna Capital's total commitment to Backed funds to €75 million, of which €36 million was already called at the end of 2019.

- **Sagard**

  In March 2020, Sienna Capital committed €150 million to the new Sagard fund, Sagard 4.

  In March 2020, Sagard 2 has finalized the disposal of Ceva Santé Animale ("Ceva"), of which it was a shareholder since 2010. With €1.2 billion of sales in 2019, Ceva has become in a few years one of the worldwide leaders in animal health, benefiting from a sustained organic growth and an ambitious build-up strategy. Sienna Capital has reinvested in the group through Sagard 3 and Sagard 4, which keep a significant participation in the new transaction.

Presentation of Results in Accordance with IFRS

The simplified consolidated income statement in accordance with IFRS is as follows:

[in millions of Swiss francs, except as otherwise noted] [unaudited]	December 31, 2019	December 31, 2018
Operating income	5,690.1	6,173.7
Operating expenses	(5,470.7)	(6,267.1)
Other income and expenses	128.7	(11.4)
Operating profit	348.1	(104.8)
Dividends and interest from equity investments	565.4	404.7
Other financial income and expenses	63.9	(109.2)
Taxes	(72.4)	(109.8)
Income from associates and joint ventures	(63.5)	27.8
Net profit from continuing operations	841.5	108.7
Net profit from discontinued operations	–	910.1
Consolidated net profit [before non-controlling interests]	841.5	1,018.8
Attributable to non-controlling interests	(450.2)	(657.4)
Attributable to Pargesa shareholders [group share]	391.3	361.4
Basic earnings per share attributable to Pargesa shareholders [SF]	*4.62*	*4.27*
Average number of shares [in thousands]	84,701	84,689
€/SF average exchange rate	1.112	1.155

The operating profit amounted to SF348.1 million for 2019 compared with a SF104.8 million operating loss in the prior year. This change reflects the turnaround of Imerys' operating profit, which had been particularly affected in 2018 by non-recurring costs incurred for its restructuring program along with the constitution of various provisions (€656 million). In 2019, the non-recurring charges were €187 million. The progression in the Other income and expenses was mainly due to the capital gains realised from the sale of two private equity investments by Ergon Capital Partners III (€136 million).

The dividends and interest from equity investments of SF565.4 million for 2019 compared with SF404.7 million in 2018, was comprised of the net dividends recorded by the group from its non-consolidated investments. The variation is due to the increase in the dividends per share paid by some of the portfolio companies, the monetization of LafargeHolcim's dividend in shares, additional investments made by GBL in Umicore and GEA and reimbursements by the French tax authorities of withholding taxes which had been applied to Total and Engie dividends received between 2013 and 2016 (SF119.5 million). These different elements more than compensate the decrease in the €/SF exchange rate.

Other financial income and expenses of +SF63.9 million for 2019, compared with -SF109.2 million in 2018, reflects notably the cashing of default interest on withholding taxes on the dividends mentioned above, the positive change in the fair value of private equity and other non-consolidated funds and the results from trading activities.

The decrease in income from associates and joint ventures relates primarily to the SF94.8 million increase in the negative contribution of Parques in 2019 compared to the prior year.

The net profit from discontinued operations of SF910.1 million in 2018 represents the contribution from Imerys' Roofing division, which was sold in October 2018.

Economic Presentation of Pargesa's Financial Results

The presentation of the economic result that follows makes it possible to analyse differently the formation of the group results.

The economic result at December 31, 2019 can be analyzed as follows:

[in millions of Swiss francs] [unaudited]	December 31, 2019	December 31, 2018
Contribution from the portfolio to operating income		
Consolidated shareholdings (full consolidation or equity accounting):		
Imerys share of net operating income	86.6	128.8
Parques share of net operating income	(8.7)	3.7
Non-consolidated shareholdings (net dividends):		
LafargeHolcim	64.4	58.0
SGS	50.4	49.6
Pernod Ricard	35.9	27.8
adidas	24.9	20.7
Total	21.1	20.8
Umicore	19.9	17.9
GEA	7.6	6.0
Ontex	3.9	5.9
Other dividends	4.4	2.6
Other	62.2	–
Contribution from private equity and other investment funds	161.2	30.5
Contribution from the portfolio to operating income	533.8	372.3
per share [SF]	*6.30*	*4.40*
Contribution from holding companies to operating income		
Net financial income and expenses	(10.5)	(25.8)
General expenses and taxes	(31.3)	(29.3)
Operating income	492.0	317.2
per share [SF]	*5.81*	*3.75*
Non-operating income (loss) from consolidated shareholdings	(100.7)	44.7
Non-operating income (loss) from holding company activities	–	(0.5)
Net income (group share)	391.3	361.4
per share [SF]	*4.62*	*4.27*
Average number of shares [in thousands]	84,701	84,689
€/SF average exchange rate	1.112	1.155

The net income comes primarily from the GBL group, whose results are denominated in euros. For the year 2019, the average €/SF exchange rate was 1.112, compared with 1.155 in the twelve months of 2018, a decrease of 3.7%. Furthermore, following the acquisition of treasury shares by GBL in 2019 (please refer to the section "Highlights" for more details), Pargesa's share of GBL's earnings (excluding the portion attributable to non-controlling shareholders) stood at 51.7% at December 31, 2019, compared with 50.8% at December 31, 2018.

Operating income

The 2019 operating income of SF492.0 million was 55% higher than in 2018 (SF317.2 million). The growth of SF174.8 million was primarily driven by the increase in dividends (SF85.4 million) and the SF130.7 million rise in the contribution from private equity and other investment funds. These two elements were partially offset by the SF54.6 million decrease in the contribution from the consolidated shareholdings.

Consolidated Shareholdings (full consolidation or equity accounting)

Imerys

Imerys' (fully consolidated) net income from current operations (group share) decreased by 22% to €277 million in 2019, compared with €357 million in 2018. Including at December 31, 2018 the contribution from its Roofing division classified as discontinued operations in the IFRS presentation for €49 million, Imerys' net operating income as defined by Pargesa amounted to €406 million. Including the effect of the decline of the average €/SF exchange rate, Pargesa's share of Imerys' net income from current operations, in Swiss francs, was SF86.6 million in 2019, compared with SF128.8 million in 2018. This lower performance is due to (i) market conditions, especially in the manufacturing sector (steel, industrial equipment and automotive in Europe and paper in the United States, etc.), which deteriorated throughout the year, causing the group's sales volumes to decrease; (ii) the negative impact of the deconsolidation of the North American talc subsidiaries; and (iii) the temporary shutdown of the Willsboro plant in the United States in the first half of the year. The impact of this decline was only partially offset by the positive effect of pricing and cost-saving measures.

Parques

For the twelve-month period ended on December 31, 2019, Parques' operating loss stood at -€61 million, of which -SF8.7 million was Pargesa's share (+SF3.7 million for the corresponding period in 2018).

Non-Consolidated Shareholdings (net dividends)

The contributions from LafargeHolcim, SGS, Pernod Ricard, adidas, Total, Umicore, GEA, and Ontex represent Pargesa's share of net dividends recorded by GBL. The contribution from non-consolidated shareholdings was SF294.7 million in 2019, compared with SF209.3 million in 2018.

The contribution from LafargeHolcim was SF64.4 million in 2019, compared with SF58.0 million in 2018. In 2019 the company declared a dividend of SF2.00 per share, the same amount as in 2018. The variance in the contribution reflects the monetization of the dividend received in shares by GBL and benefiting from a premium compared to the dividend that would have been received in cash.

The contribution from SGS came in at SF50.4 million in 2019, compared with SF49.6 million for the corresponding period in 2018. The change of the contribution year-over-year results from the increase in the dividend per share paid by SGS to GBL (SF78 compared with SF75 in 2018, up 4.0%) reduced by currency effects.

Pernod Ricard's contribution in 2019 amounted to SF35.9 million, compared with SF27.8 million in 2018. The year-on-year increase was due to a higher dividend per share payout in 2019.

The contribution from adidas was SF24.9 million in 2019, compared with SF20.7 million in 2018. The change in the contribution mainly reflects the increase in the dividend per share paid by the company to GBL (€3.35 vs. €2.60 in 2018, or +29%).

The contribution from Total was SF21.1 million in 2019, compared with SF20.8 million in 2018. The rise in quarterly dividends during the year pushed the contribution higher than in 2018.

Umicore's contribution amounts to SF19.9 million in 2019, compared with SF17.9 million in 2018. The variance primarily resulted from a hike in the dividends per share and also from GBL increasing its stake in the company in 2019 (from 17.7% to 18.0%).

The contribution from GEA was SF7.6 million in 2019, compared with SF6.0 million in 2018. In 2019 the company paid a dividend of €0.85 per share, the same amount as in 2018. The increase of the contribution reflects the additional investments in GEA made by GBL in the second half of 2018, raising GBL's economic interest to 8.5% at December 31, 2019.

The contribution from Ontex was SF3.9 million in 2019, compared with SF5.9 million in 2018. The change mainly reflects the decrease of the annual dividend paid by Ontex to GBL (€0.41 per share in 2019, compared with €0.60 in the previous year, or -32%).

The item Other mainly includes reimbursements of SF62.2 million (Pargesa's share) by the French tax authorities of withholding taxes which had been applied to Total and Engie dividends received between 2013 and 2016.

Contribution from Private Equity and Other Investment Funds

The contribution from private equity and other investment funds comes primarily from the funds held by GBL through its subsidiary Sienna Capital, and is reported net of general expenses and management fees. For 2019, the net contribution from these activities was SF161.2 million, compared with SF30.5 million in 2018, an increase of SF130.7 million.

The contribution for the year 2019 includes in particular the contribution of consolidated funds, i.e. SF72.0 million (SF10.9 million in 2018), SF17.8 million attributable to Kartesia (SF12.6 million in 2018), SF70.2 million of capital gains following disposals of investments in Looping and opseo as well as the change in fair value during the year of funds that are not consolidated for SF87.3 million (SF19.7 million in 2018).

Net Financial Income and Expenses

Net financial income and expenses, which includes interest income and expenses, as well as other financial income and expenses, amounted to -SF10.5 million in 2019, compared with –SF25.8 million in 2018, and comprised:

- Net interest income and expenses recorded by Pargesa and GBL of +SF3.6 million in 2019, including +SF11.3 million of penalty interest on the withholding taxes which had been unduly applied to Total and Engie dividends received between 2013 and 2016. Net interest income and expenses amounted to -SF13.7 million in 2018;
- Pargesa's share of realized and unrealized results recorded by GBL from trading activities (including dividends) and from derivatives used in managing its portfolio for +SF7.4 million in 2019, compared with -SF1.6 million in 2018;
- The impact of the marking to market of the derivative instruments implicitly embedded in the exchangeable bonds in LafargeHolcim shares issued by GBL in September 2019, which amounted to -SF18.7 million in terms of Pargesa's share, for the year ended December 31, 2019. In 2018, Pargesa recorded a profit of +SF7.0 million related to its share of the gains on GBL's convertible bonds that GBL redeemed in 2018.

General Expenses and Taxes

The general expenses and taxes line item represents Pargesa's own general expenses and taxes as well as its share of those of GBL.

Non-Operating Income (Loss)

Non-operating income (loss) from consolidated shareholdings

Non-operating income (loss) from consolidated shareholdings in operating companies amounted to a loss of -SF100.7 million (+SF44.7 million of non-operating income in 2018) and includes:

- Pargesa's share of Imerys' "other operating income and expenses" amounted to -SF48.7 million compared to +SF48.7 million in 2018. This item included €84 million (or SF26.4 million in Pargesa's share) of costs incurred by Imerys as part of its transformation program, €46 million (or SF14.5 million in Pargesa's share) in depreciation of non-core assets, €7 million (or SF2.3 million in Pargesa's share) due to the deconsolidation of the North American talc subsidiaries and €6 million (or SF2.0 million in Pargesa's share) relating to the temporary shutdown of its Willsboro plant in the United States;
- Non-recurring expenses recorded by Parques during 2019 for €291 million, or SF37.3 million in Pargesa's share, compared with SF4.0 million in 2018.
- Following the acquisition of Webhelp during the fourth quarter of 2019, GBL recognized a contribution of -€20 million (or -SF11.4 million in Pargesa's share). This contribution primarily consisted of GBL's share of the transaction costs to complete the acquisition.

After taking these various items into account, Imerys' net income included in the economic result (group share) amounted to SF37.9 million (compared with SF177.5 million in 2018). Parques' net income amounted to -SF46.0 million (group share) compared to -SF0.3 million in 2018.

Non-operating income (loss) from holding company activities

The net non-operating income (loss) from holding company activities was nil in 2019, compared with -SF0.5 million in 2018.

It should be noted that, pursuant to IFRS 9, the gain resulting from the sale by GBL of 1% of adidas' capital during the first half of 2019 amounting to SF193 million (Pargesa's share) as well as the gain resulting from the sale by GBL of 1.7% of LafargeHolcim's capital during the fourth quarter of 2019 amounting to SF58 million (Pargesa's share) have not been recorded in the income statement, but directly in shareholders' equity.

The same will apply to the capital gain to be realized by GBL in 2020 on the forward sale of 0.6% of Total's share capital, estimated at SF319 million in Pargesa's share (including a foreign exchange gain on disposal at Pargesa's level) and which will also not impact the income statement.

Net Asset Value

The table below provides a detailed view of Pargesa's net asset value (on a flow-through basis) at December 31, 2019. The net asset value is calculated by taking, on one hand, the assets and liabilities of Pargesa (excluding Pargesa's participation in GBL) and, on the other hand, Pargesa's share in the value of the portfolio, the net cash or net debt position and the other assets and liabilities of GBL. The net asset value is calculated based on closing market values and exchange rates for the listed shareholdings, and on the fair value and closing exchange rates for the funds (private equity and other investment funds) of Sienna Capital and for the unlisted investments in Webhelp and Parques.

Pargesa's net asset value per share was SF129.2 per share at December 31, 2019, an increase of 22.0% compared with the net asset value per share at the end of 2018 (SF105.9 per share). The figure was SF112.8 per share on March 6, 2020.

Pargesa's share price stood at SF80.5 on December 31, 2019, compared with SF70.9 at the end of 2018, an increase of 13.5%. At March 6, 2020, the share price closed at SF69.3, down 13.9% since the beginning of 2020, in the context of an economic and financial environment marked by the uncertainty caused by the development of the coronavirus pandemic.

The net asset value at December 31, 2019 is broken down as follows:

Net asset value of Pargesa [a]				December 31, 2019		December 31, 2018
[in millions of Swiss francs, except as otherwise noted] [unaudited]	Total interest % [a]	Flow-through % of interest [a]	Share price & currency	Flow-through value [a]	Weighting as a % of total	Flow-through value
Listed companies:						
adidas	6.8	3.4	€289.8	2,144	20	1,613
Pernod Ricard	7.5	3.8	€159.4	1,721	16	1,606
SGS	16.7	8.4	SF2,651.0	1,679	15	1,400
LafargeHolcim	7.6	3.8	SF53.7	1,253	11	1,156
Umicore	18.0	9.0	€43.4	1,043	10	856
Imerys	54.0	27.0	€37.7	878	8	1,014
Total [b]	0.6	0.3	€49.2	433	4	422
GEA	8.5	4.3	€29.5	246	2	195
Ontex	20.0	10.0	€18.8	167	1	166
Other				63	1	96
Other investments:						
Sienna Capital				969	9	774
Webhelp	64.7	32.4		470	4	
Parques	23.0	11.5		128	1	104
Other Pargesa				18	1	24
Total portfolio				11,212	103	9,426
GBL treasury assets				266	2	113
Net cash (debt) [c]				(532)	(5)	(566)
Net asset value				10,946	100	8,973
Net asset value per share				*129.2*		*105.9*
Share price Pargesa				*80.5*		*70.9*
€/SF exchange rate				1.085		1.127

[a] As defined in the glossary further in this report.

[b] The ownership percentage as well as the market value of the investment do not yet take into account the forward sales of Total shares which matured in January 2020. The fair value of these contracts is included in the item Net cash (debt) for SF1 million.

[c] This item also includes Pargesa's share in the market value of GBL's trading portfolio.

The net asset value is published on a weekly basis on Pargesa's website.

Subsequent Event

Public offer of exchange for Pargesa bearer shares in public hands

Pargesa and Parjointco reached an agreement on the terms and conditions of a simplification of the structure of their group through a public exchange offer initiated by Parjointco on all Pargesa bearer shares that it does not already own. Under this bid, the shareholders of Pargesa will receive 0.93 GBL shares in exchange for each Pargesa bearer share.

A pre-announcement of the Parjointco public exchange offer can be viewed on:

https://www.pargesa.ch/en/listed-securities/exchange-offer-offre-dechange/.

By decision of February 13, 2020, the Swiss Takeover Board has ruled on certain preliminary issues concerning the public exchange offer of Parjointco. As required, Pargesa published the pronouncement for this decision. This text can be accessed at the aforementioned internet address.

Glossary

In order to supplement the mandatory financial measures of the IFRS accounting standards, Pargesa uses financial indicators called Alternative Performance Measures (APMs), which are defined in the glossary below. The definition of APMs should allow readers of financial statements to understand their composition and to link them to IFRS financial statements.

Alternative Performance Measures	Definition
Economic results	In addition to the financial statements prepared in accordance with the IFRS accounting standards, Pargesa publishes an economic presentation of its results to provide consistent disclosure over the long term of the contribution of each of its investments and, separately, the holding companies contribution to the consolidated results (group share). The purpose of the economic presentation is to provide an analytical breakdown of the consolidated results (group share) of Pargesa by their origin. This presentation discloses on one hand the contribution of the various components of the investments (Pargesa share) and on the other hand the contribution from the activities of the holding companies (Pargesa and its share of GBL's holding activities). This analysis distinguishes between the operating and non-operating elements of the results. The sum of the operating income and the non-operating income corresponds to the consolidated net profit attributable to Pargesa shareholders (group share) as presented in the consolidated financial statements. ▪ The operating income includes the following items: • The contribution from the investment portfolio, comprised of the group share in the operating income (as described above) of the investments consolidated in the group financial statements (Imerys, Webhelp since 2019) or presented using equity accounting and the net dividends received from the non-consolidated shareholdings; • The net contribution from private equity and other investment funds (as grouped together by GBL under the title of Sienna Capital); • The net impact of gross financial income and gross financial expenses and the general expenses and taxes of the holding companies; • The trading results of GBL, the gains and losses from investment disposals or impairment provisions made within the private equity and other investment funds that are included within the operating income considering the nature of the business model of this category of investments. ▪ The non-operating income includes: • The group share in the non-operating income of the investments consolidated in the group financial statements (Imerys, Webhelp since 2019) or presented using equity accounting (Parques); and • The non-operating income generated by the holding companies (Pargesa and its share in the non-operating income of GBL).
Holding segment	Comprises the parent company Pargesa and its subsidiaries (including GBL) whose main activity is to manage investments as well as the consolidated and non-consolidated operating companies.
Loan to value	This ratio is calculated based on (i) net debt (gross cash less gross debt) held directly by Pargesa relative to (ii) the portfolio value of Pargesa. The valuation methods applied to the portfolio are identical to those used for the net asset value.
Net asset value	The evolution in Pargesa's net asset value is, along with the change in its stock price and result, an important criterion for assessing the performance of the group. The net asset value is a conventional reference obtained by adding gross cash to the fair value of the investment portfolio and deducting gross debt. The net asset value calculation is based on the one hand on the assets and liabilities of Pargesa, with the exclusion of its investment in GBL and on the other hand on Pargesa's flow-through interest in the value of the investments, the net cash or net debt, and other assets and liabilities of GBL. The net asset value is calculated based on the market closing prices and foreign exchange rates for listed investments and using the fair value and closing foreign exchange rates for unlisted investments, and private equity funds and other investment funds (Sienna Capital).

Alternative Performance Measures	Definition
Net asset value (continued)	The valuation principles applied to the portfolio, summarized above, are explained more fully as follows: ▪ Investments in listed companies and treasury shares are valued at the closing price. However, the value of shares underlying any commitments made by the group is capped at the conversion/exercise price; ▪ Investments in unlisted companies (Webhelp and Parques) are valued at fair value; ▪ Regarding the portfolio of Sienna Capital, held by GBL, the valuation corresponds to the sum of its investments, marked to market, as determined by fund managers, to which is added Sienna Capital's net cash or, where applicable, from which is deducted Sienna Capital's external net debt. In addition, the net asset value on a flow-through basis or flow-through value represents the value of the investments, treasury shares and net cash/net debt that Pargesa holds while taking into account Pargesa's direct interest percentage in GBL. This value is calculated by multiplying the interest of each component of the net asset value, described above, by the direct interest percentage that Pargesa held in GBL (50%). Furthermore, the net asset value per share is expressed per bearer share with a nominal value of SF20, the registered shares with a nominal value of SF2 are included at a factor of one-tenth of their number.
Net cash or net debt / net indebtedness	The net cash or, where applicable, net debt is composed of the gross cash and the gross debt. Gross debt includes all the financial liabilities of the Holding segment (convertible and exchangeable bonds, bonds and bank debt), valued at their nominal repayment value. Gross cash includes the cash and cash equivalents (trading assets, etc.) of the Holding segment. It is valued at the book or market value (for certain cash equivalents). The cash and debt indicators are presented for the Holding segment to reflect Pargesa group's own financial structure and the financial resources available to implement its strategy.
Operating companies	The operating companies are the companies controlled by the group or presented using the equity accounting method, which have a commercial activity. Excluded from this measure are the holding companies of the group used for direct or indirect investment into the investment portfolio companies.
	Pargesa's external communication contains different percentages describing the holding of share capital and the related voting rights:
Direct interest percentage	Direct interest percentage has the meaning of the percentage of capital of the investment held directly by Pargesa calculated based on the total number of shares issued at December 31;
Total interest percentage	Total interest percentage has the meaning of the percentage of capital of the investment held directly by Pargesa or, indirectly through GBL, in other investments whether consolidated or not;
Economic interest percentage	Economic interest percentage is the fraction of the profit entitlement (or loss quota) that generally materializes with the dividend distribution and, if applicable, of the liquidation surplus/(deficit) distribution of a company. It reflects the group's "financial" or "monetary" rights in its subsidiaries and shareholdings.
Percentage of voting rights	Percentage of voting rights has the meaning of the percentage held directly and indirectly via intermediate, consolidated entities and is calculated based on the total voting rights that existed at December 31;
Percentage of flow-through interest	Percentage of flow-through interest represents the percentage Pargesa holds in the investments considering Pargesa direct interest percentage in GBL. This ratio is calculated by multiplying the interest held by GBL in each investment by the direct interest percentage that Pargesa held in GBL (50%).

Page intentionally left blank.

Corporate Information

Power Corporation of Canada

751 Victoria Square
Montréal, Québec, Canada H2Y 2J3
514-286-7400
1-800-890-7440

161 Bay Street, Suite 5000
Toronto, Ontario, Canada M5J 2S1
416-607-2250

www.powercorporation.com

This document is also available on the Corporation's website and on SEDAR at www.sedar.com.

STOCK LISTINGS

Shares of Power Corporation of Canada are listed on the Toronto Stock Exchange:

Subordinate Voting Shares: POW
Participating Preferred Shares: POW.PR.E

First Preferred Shares, 1986 Series: POW.PR.F
First Preferred Shares, Series A: POW.PR.A
First Preferred Shares, Series B: POW.PR.B
First Preferred Shares, Series C: POW.PR.C
First Preferred Shares, Series D: POW.PR.D
First Preferred Shares, Series G: POW.PR.G

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

Offices in:
Montréal, Québec; Toronto, Ontario;
Vancouver, British Columbia
www.investorcentre.com

SHAREHOLDER SERVICES

Shareholders with questions relating to the payment of dividends, change of address, share certificates, direct registration and estate transfers should contact the Transfer Agent:

Computershare Investor Services Inc.
Shareholder Services
100 University Avenue, 8th Floor
Toronto, Ontario, Canada M5J 2Y1
Telephone: 1-800-564-6253 (toll-free in Canada and the U.S.)
or 514-982-7555
www.computershare.com

Power Corporation of Canada is recognized as an Imagine Canada Caring Company for leadership and excellence in community investment.

To learn more about the organizations we support, visit
www.PowerCorporationCommunity.com

The Caring Company Program Trustmark is a mark of Imagine Canada used under licence by Power Corporation of Canada.

PRINTED IN CANADA